SPECIFIC ASPECTS OF ACCOUNTING

AS APPLIED TO

A RETAIL FURNITURE ESTABLISHMENT

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INTRODUCTION

The instalment business, as highly developed as it now is, is greatly in need of informative records in order to properly function as a business. The accounting systems used in most concerns of the instalment type are not satisfactory. Many retail furniture instalment firms use the ordinary accounting methods used by stores which do their business on either a cash or charge basis. Some instalment houses use a system somewhat adapted to furniture instalment trading. But no attempt has been made to standardize a general system of accounting so that the vital information concerning furniture instalment trading can be brought out. It is because of this need that this thesis is written. Very little has been written on this subject of instalment accounting. The files of libraries in some of our larger cities fail to reveal hardly any written matter on this subject. It is to be understood that this thesis is original, and written after some ten years have been devoted to the actual handling of furniture instalment records.

CHAPTER I

VOLUME AND TRENDS OF BUSINESS

Instalment accounting is a division of accounting procedure that should be used by furniture instalment concerns. It is especially adapted to instalment trading and is a system which, if properly followed, should prove very beneficial. The two main benefits to be derived from establishing a standard system of accounting for furniture concerns are:

1. Temporary relief from unnecessary taxes,
2. Vital information available to executives of business.

Tax returns when made out for a retail furniture instalment house should be made out on a cash receipts basis. This privilege is given to all instalment houses whose down-payments average 40% or less. The percentage has been recently raised by the federal authorities from a former 25% allowance to a 40% allowance. It can readily be seen that proper and accurate records must be kept in order to be able to use the cash receipts basis for reporting income. This privilege, granted to instalment houses who can qualify, is no more than equitable because, if otherwise, instalment houses when reporting income on an accrual basis would be paying taxes on income not yet earned or even paid. In other words, reporting on an instalment basis allows the merchant to report as income a certain portion of his receipts rather than his gross profits on sales. It is therefore obvious that for taxation purposes, a specific set of accounting records must be kept.

Information necessary in order to properly guide a business can not very easily be obtained unless the accounting system provides for it. It has already been brought out that for taxation purposes it is necessary to keep proper records. The down-payments are not the only necessary facts to ascertain. Something has already been said about reporting a certain portion of the receipts as income. In order to be able to ascertain this portion of receipts, the sales records must also be adapted to an instalment basis. The cash receipts must also be recorded in such a manner as to be able to allocate all receipts depending upon the date of the original sale. In other words, the cash receipts of a given year must be allocated to the year in which the sale was made. This is necessary in order to determine the rate of per cent to apply to the receipts.

Information relative to collections, very important to the executives, must not be confused with down-payments. To the merchant, down-payments are also very important to know, but collections must be known accurately. Too many furniture instalment houses have only a faint idea of what their collections really are, let alone knowing what they should be. Under-capitalization is often stated to be responsible for an unfavorable cash situation when in reality it is poor collections. But how can anyone know whether collections are what they should be? An arbitrary goal of a certain per cent of collections is not accurate or advisable.

Many retail furniture instalment houses have set a goal of 8-1/3% collections on their outstanding accounts for each month. Undoubtedly this goal is so set because of the desire that the average account should not run longer than twelve months. Professor Douglas (1) of Yale University, having taught commercial subjects for many years, presents ten questions of importance to every business executive. Among these questions are the following ones:

1. What proportion of the sales are on credit?
2. What were the net losses on credit sales last year?
3. What common figure is accepted as the average net loss on credit sales last year?

There is altogether too much guess work necessary in any system of accounting which does not fulfill the requirements of a particular business, he further states. If the monthly rate of per cent falls below 8-1/3%, then collections are considered poor. If the rate reaches 8-1/3%, or even goes higher, then collections are good. But no attempt is made to determine the amount of cash that should be collected. An authority (2) on world affairs says that, "On the average in any community, 10% of the people buy for cash, 30% on charge account, and 60% on easy convenient terms". Total retail sales in the United States in 1925 equalled 38 billion dollars. Of this

(1) Bruckner, Al., Modern business: Jeweler's journal, p.54 November 1930
(2) Couzens, James, Instalment buying and its effects: The North American review, Vol.224, p. 80, March-April-May 1927

total, 850 millions were for furniture, 189 millions for pianos, 33 millions for phonographs, 169 millions for radios. Of these totals 60% was easily sold on terms. Any modern retail furniture instalment firm of to-day sells all of the above listed articles, namely, furniture, pianos, phonographs, and radio sets. Yet in spite of this great volume of instalment business, the records which are to guide this field of business activity are neglected. No attempt to date has been made to standardize a general system of accounting to any instalment business. Of all the instalment business done, the furniture instalment group is second only to the automobile group. In an article written by a Doctor of Philosophy of Ohio State University (3) it was brought out that about 95% of the furniture stores and 58% of the department stores surveyed extends instalment credit, and about 65% of the furniture sold in department stores was sold on an instalment basis. The following table is very informative:

Table I

Instalment Sales as a Percentage of Total Sales in Furniture Stores on the Basis of Size of Community in Which the Stores Are Located

Population of Communities	Instalment Sales as a Percentage of Total Sales
Up to 5,000	51.2
5,000 to 25,000	67.5
25,000 to 50,000	73.0
50,000 to 100,000	86.5
100,000 and over	76.6

(3) Cordell, Harry W., Instalment credit in the furniture trade: Furniture record, pp.34,35, November 1930.

It was also stated that instalment trading was not confined to stores of any particular class. Instalment credit was extended by large and small stores and by department stores as well as furniture stores selling high-grade merchandise as well as medium-grade and low-grade merchandise. Goods of a perishable nature, if sold on the instalment basis, should be safeguarded more carefully than goods of a less perishable nature. These safeguards can be accomplished in this manner: by selecting credit risks with greater care; by requiring larger down-payments and granting shorter credit periods; by selling perishable goods only along with less perishable goods; and by placing a higher mark-up on perishable goods. One of the best safeguards against placing bad risks on the books is the benefit to be obtained by membership in a credit bureau. A table presenting the instalment business done in the year 1925 is shown below.

Table II

STATISTICS ON THE PARTIAL PAYMENT PLAN DURING 1925

M. V. AYERS

	TOTAL SALES	ORIGINAL UN-PAID BALANCE	AVERAGE INSTAL-MENTS OUTSTANDING
Autos. New & Used	3,780,000,000	2,546,000,000	1,378,000,000
Household Furniture	789,000,000	684,000,000	542,000,000
Pianos	234,000,000	203,000,000	212,000,000
Phonographs	174,000,000	134,000,000	84,000,000
Sewing Machines	106,000,000	97,000,000	77,000,000
Washing Machines	104,000,000	94,000,000	51,000,000
Property Imprvmts.	108,000,000	83,000,000	45,000,000
Radio Sets	181,000,000	139,000,000	41,000,000
Jewelry Store Goods	108,000,000	88,000,000	40,000,000
Clothing	282,000,000	223,000,000	36,000,000
Tractors	75,000,000	52,000,000	28,000,000
Vacuum Cleaners	56,000,000	48,000,000	20,000,000
Farm Machinery	31,000,000	25,000,000	13,000,000
Gas Stoves	27,000,000	23,000,000	12,000,000
Mechan.Refrigerators	16,000,000	14,000,000	11,000,000
All Other Goods	108,000,000	88,000,000	48,000,000
TOTAL	6,179,000,000	4,541,000,000	2,638,000,000

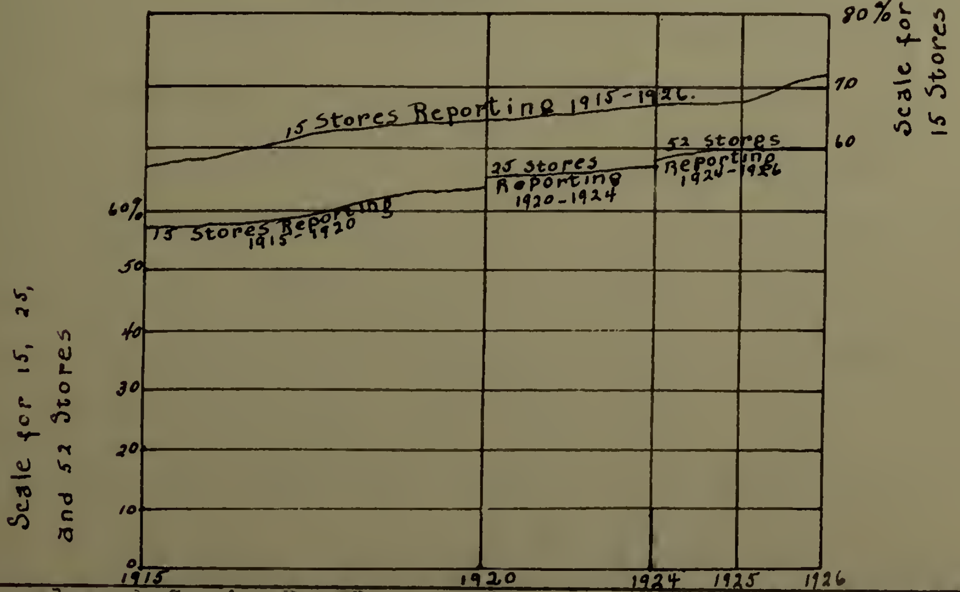
One writer (4) states that, "This business has so arranged itself that the instalment debt is always about two-thirds paid and only one-third outstanding". Out of every dollar spent

(4) Shepherd,W.G., People are honest:Collier's p.32,November 12, 1927

today, a certain definite amount of it is for furniture and over 85% of the furniture bought is on the instalment method. As already stated, the automobile trade leads the field of instalment sales, and its share of the dollar is 6.82 cents. Furniture comes next in line with 4.87 cents of the dollar. The president of the American Bankers' Association says (5) that, "The average family spends something like $50.00 a year for furniture". It is unnecessary to show any more reasons for the need of a specific form of accounting system adapted to the furniture instalment business. The following is a chart showing the trends of the retail furniture instalment business as taken from a very recent publication(6).

Table III

Instalment Sales as a Percentage of
Total Sales in Furniture Stores.
1915-1926



(5) Hazelwood, Craig, B., Why worship the idol of volume when you know it's only idle volume: Furniture record, p.47, July 1929.

(6) Cordell, Harry W., Instalment credit in the furniture trade: Furniture record, p.35, November 1930

CHAPTER II

THE SALES RECORD

The sales journal presents no particular problem except that the debiting of instalment sales to accounts receivable should be debited to accounts receivable of a given year, namely, the year in which the sale was made. This is necessary, although rarely done, because of balance sheet purposes and for informative purposes. The accounts receivable of a retail furniture instalment house are usually the largest asset. This asset is rarely segregated. It is simply shown as one figure, although part of this asset may be long overdue. The executives of the average instalment establishment themselves are unaware of the age of the accounts receivable because they are usually too numerous to age. Ageing is unnecessary if a permanent record is kept as suggested above. Sales made in 1930 are posted to accounts receivable for 1930. Collections and down-payments on 1930 accounts are credited to 1930 accounts receivable. The simple introduction of a few accounts into the general ledger, and a few extra columns on the cash records provides a perpetual record of balances outstanding on accounts receivable dating from the inception of the business. Thus the total accounts receivable as in 1930 can be separated into accounts receivable of 1930, 1929, and 1928. This information is very important to the executive, because it shows him where his capital is invested. The percentage of collections now obtained by dividing the amount of collections by the accounts

receivable produces one figure. This figure is not informative enough. It tells nothing. But a percentage of collections obtained on the different classes of accounts receivable is very informative. The following table (7) presents in itself evidence in favor of proper records for the recording of collections.

Table IV

Credit Periods Allowed by 96 Furniture Stores

Length of Credit Periods (Months)	Number of Stores
6	2
10	9
12	33
18	8
24	4
4 to 12	1
6 to 15	1
6 to 18	1
8 to 15	1
8 to 24	1
9 to 12 (Limit 15)	1
10 to 12	2
10 to 14	1
10 to 16 (Limit 24)	1
12 to 15	6
12 to 16	1
12 to 18	7
12 to 24	4
12 to 30	1
18 to 30	1
$1 on the hundred	1
1% weekly	1
10% a month on accounts over $100	1
"To suit customer";"No definite number of months"; etc.	7

(7) Cordell, Harry W., Instalment credit in the furniture trade: Furniture record, p.36, November 1930

Proper records reflect immediately why collections are good or poor. The one percentage figure may be a good or poor figure but it doesn't tell why this condition is so. Assume that the percentage is poor, in many furniture instalment houses doing business it is impossible to state what class of accounts are not paying unless of course every account is examined. In using the method outlined previously, of keeping accounts receivable and collections of given years separate from other years, and thus obtaining independent and separate percentages of collections, the poor paying accounts are singled out. In fact, if collections are poor, as assumed, this fact is erroneous, because accounts of 1929 may be paying very good while 1930 and 1928 accounts may be paying so poorly that the one percentage obtained reflects a poor percentage. Assume that collections are good under the system of accounting now employed in nearly all instalment houses of the furniture type. This fact is not necessarily true. The 1929 accounts may be paying as agreed while the 1930 and 1928 accounts may not be living up to their terms. The posting of 1930 instalment sales to 1930 accounts receivable and the same handling of receipts provides a truer picture of accounts receivable and their age. The figure of percentage obtained under the new system suggested can be compared to the figure or amount that should be obtained by allocation of sales on a yearly basis. Under the system used, the percentage is called good or poor without any particular reason except that the cash

balances are not considered very favorable. Suppose collections are poor. Isn't it possible that the collections obtained are all that the accounts agreed to pay? In most businesses the base on which most calculations are made is net sales. This is not usually so in a retail furniture instalment concern. An accountant (8) points out that in collections, there is only one known quantity, namely, the amount of collections. Is the base to use sales or "outstandings"? The answer is clearly that neither is proper, because a declining volume would deflect the percentage of collections upward and may show an apparent improvement in collections whereas a decline in collections is actually the case. The solution lies in the analysis of monthly sales by future "maturities", this accountant believes. The total for each month would be spread over an average period, predetermined, which period is a sufficient one for collections, allowing a normal period for delinquencies beyond which the accounts should be offset by a reserve. The total of the portions of each month's sales falling due in any given month becomes the "maturities" for that month. The following data can now be accurately obtained:

1. Separation of current accounts receivable from those due in a longer period,

2. The amount of delinquencies is readily known and the reserve

(8) Musselman, D. Paul, Instalment house statements, facts they should-but seldom do present: Credit monthly, p.34, March 1928.

can be properly increased,

3. The correct basis for calculating the percentage of collections is established, namely the "maturities" for the month, or, in other words, the amount which would be collected if the accounts were paying 100% effectively, is known. It has now become possible to tell whether or not the proper amount of collections is being received. Under the new system explained above, every sale on the instalment basis can be so allocated as to represent the months and number of payments in each month due. Thus, a $130.00 instalment sale may call for a $10.00 down-payment, the balance in twelve monthly payments of equal amounts. It is clear that the monthly payment is $10.00. This system, if carried through for every sale, will show at the end of the month the amount that should have been collected during the month. One subsidiary account to the accounts receivable should be opened up. This account would be "broken down" into twelve months representing each month. Every new account, "add-on" sale, or "re-open" sale, in fact every instalment sale made, would be entered on the subsidiary sheet in such a manner that the balance of the account, after the down-payment is deducted, would be used up by allocations of payments on a monthly basis into the monthly columns suggested above. The collection of receipts would also be so allocated. This also calls for the introduction of monthly columns on the cash records. At

the end of the month a comparison can be made between the amount that should be collected and the amount actually collected. The above allocation is really one drawing a very close and fine line. It points out not only the very year in which the sales were made and which are not paying, but it points out the very month in which the sale was made. The delinquent account making a payment to-day which was due three months ago presents no different problem. The payment is credited to the month standing open the longest, namely the first month, thus leaving the last two months open. A payment in advance presents no difficulty either. The payment is simply credited to the first month open and has no effect whatsoever on the current month's result.

The proper type of sales journal is shown in Table V and the closing entry is also shown. The reason that cash sales is included in the entry is because balances may yet be outstanding on cash sales which balances are to be collected on a C. O. D. basis. The cost of goods sold is taken care of by use of a memo account of a perpetual inventory. Sales can be shown by departments with their respective costs. This will bring out the results of the various departments. The columns for the salesmen and ledger controls need no explanation. The down-payment column is used only to show the down-payment amount paid on instalment sales made during the current month. The column representing the balance on account receiv-

Table V

SALES JOURNAL NOVEMBER 1930

Date	Instal. Sales	Cost	Cash Sales	Cost	Furniture	Cost
1930 Nov.30	100,000	60,000	10,000	6,000	75,000	39,000

(Continuation)

Radio	Cost	Salesman A Sales	Cost	Salesman B Sales	Cost
35,000	21,000	50,000	30,000	60,000	36,000

(Continuation)

Acc.Rec. Ledger I	Ledger II	Down-Payments	Bal.Acc.Rec.	New Sales-Lease
60,000	40,000	10,000	90,000	70,000

(Continuation)

Re-Opens	Add-Ons
10,000	20,000

ENTRY

Accounts Receivable 1930	100,000	
Cash Accounts Receivable	10,000	
Instalment Sales		100,000
Cash Sales		10,000

able sales made during the current month is to be allocated to the various months of the year, depending upon the maturity date.

Table VI shows the subsidiary record to the accounts receivable. The usual accounts receivable control in a retail furniture instalment concern is made up of one general control account of all the receivables and then follow controls for the individual ledgers. Under the above mentioned system, the general control account is unnecessary. It is replaced by yearly accounts receivable balances. The only new ledger account is the introduction of a subsidiary record as shown in Table VI. The form of record as shown in Table VI is not used in the retail furniture instalment business, and yet it is a guide on collections, showing what they are by months and year compared to what they should be. It is a record that can greatly aid the credit department in that it points to the accounts which opened up during a certain month as not living up to the terms agreed upon. With a record of this type the credit department is saved all the time of locating the slow paying accounts. This record also furnishes the executive with a means of testing the efficiency of the credit department. The introduction of accounts receivable accounts by years showsthe owners of a retail furniture instalment establishment the balances of accounts

Table VI

SUBSIDIARY RECORD OF ACCOUNTS RECEIVABLE BY MONTHS

				Jan.		Feb.	
Date	Balance	Dr.	Cr.	Due	Pd.	Due	Pd.
1930							
Nov.30		100,000	(C) 10,000	6,000	6,000	7,000	5,000
Sales		900,000	(C) 90,000	20,000	14,000	30,000	15,000
	462,000		(C)438,000				

(Continuation)

March		April		May		June		July	
Due	Pd.	Due	Pd.	Due	Pd.	Due	Pd.	Due	Pd.
5,500	5,000	5,000	3,000	3,000	3,000	9,000	5,000	10,000	10,000
20,000	20,000	20,000	[illegible]	30,000	27,000	35,000	30,000	30,000	30,000

(Continuation)

Aug.		Sept.		Oct.		Nov.		Dec.	
Due	Pd.	Due	Pd.	Due	Pd.	Due	Pd.	Due	Pd.
8,000	8,000	8,500	5,000	7,500	7,000	4,500	4,000	15,000	15,000
40,000	30,000	75,000	35,000	50,000	[illegible]	60,000	51,000	50,000	45,000

(Continuation)

Next Year

350,000

In connection with this table see Table V from which opening amounts were taken. See also tables reflecting collections and sales for year, tables XVIII and VII respectively.

outstanding of sales made during any year. It also shows the age of the asset in which the capital of the firm is invested.

The labor involved in systematizing the sales journal and the record closely associated with it, namely, the record of accounts by months, is very little and yet it furnishes a wealth of information necessary for proper guidance in the handling of an instalment business of the furniture type. The system of accounting as outlined is very essential to a retail furniture instalment concern. If the information obtained from this record is properly used it is very informative, even from an advertising standpoint. In this type of business there are three general classes of an instalment sale. The new instalment sale needs no explanation. The "re-open" sale is, as the name implies, a sale made to an account closed out in the past. The "add-on" sale is one which is made to a customer already having an open, active balance on the books. The total instalment sales figure is allocated into one of the three above mentioned columns. In this manner, the advertising department is informed of the percentage of each type of sales to the entire sales. If any one of these types of sales is below the average, then some other method of advertising may be used. But this thesis is written from an accounting viewpoint. Nearly every new

instalment sale requires a down-payment. This down-payment may vary from the customary 10% to even 25%. Let us assume that the customary 10% down-payment prevails in a given concern. "Add-on" sales or "re-open" sales will usually be passed, if the past record of the account warrants it, without the usual per cent of down-payment. If no provision is made in the records, the final down-payment per cent will be considerably less than 10%, depending upon the amount in dollars of "re-open" and "add-on" sales. The proper method to follow as outlined above is to allocate sales. Thus, at the end of a given period, the true percentage on each type of sale can be determined. The procedure is not very difficult. The new sales figure is available from the sales record. The only amount now needed is the amount of down-payments divided into initial payments on new sales, "re-open" sales, and "add-on" sales. All three of these figures can be obtained by "breaking down" the one down-payment figure, obtained from the cash records, into three sections. The financial statements will now be able to reflect three separate, distinct, and accurate down-payment percentages, rather than one down-payment percentage figure. This information is very informative because if the down-payments are below the desired per cent, it is a simple matter to locate the type of sale which requires a larger down-payment. Most of the retail

furniture instalment houses are using a system in which only one down-payment percentage is obtained. This percentage system is not informative in any manner, and is little better than no system at all. The importance of down-payments cannot be overemphasized when it is realized that thru the down-payment does the customer obtain his first equity in the merchandise leased. The equity is, of course, theoretical, but from the viewpoint of the instalment concern, the larger the down-payment, the less liklihood of a replevin. It must also be remembered that down-payments constitute one of the two sources of receipts, namely, collections and down-payments. A record can be kept of the number of new instalment sales, "re-open" instalment sales and "add-on" instalment sales so that the average sale of each type above designated can be ascertained.

The sales journal summary as shown in Table VII, giving assumed figures for the year can now be closed. The journalized entry on this table needs no explanation. At this time the unrealized gross profit account is opened up. This unrealized gross profit account may be used in other types of businesses and have its own meaning, but in the retail furniture instalment business it has its own meaning. This account with a credit balance reflects the outstanding amount of profits already taken up on the books as income but not yet collected. This

Table VII

SALE JOURNAL YEAR 1930

Date	Instal. Sales	Cost	Cash Sales	Cost	Furniture	Cost
Year 1930	1,000,000	600,000	50,000	30,000	750,000	400,000

(Continuation)

Radio	Cost	Salesman A Sales	Cost	Salesman B Sales	Cost
300,000	230,000	500,000	300,000	550,000	330,000

(Continuation)

Acc.Rec.Ledger I	Ledger II	Down-Payments	Bal. Acc. Rec.	New Sales-Lease
600,000	400,000	100,000	900,000	700,000

(Continuation)

Re-Opens	Add- Ons
100,000	200,000

ENTRY

Accounts Receivable 1930	1,000,000	
Cash Accounts Receivable	50,000	
Instalment Sales		1,000,000
Cash Sales		50,000

account is usually combined with the surplus account and the total is called the surplus of a retail furniture instalment concern. This account is credited indirectly, with the gross profit on sales. It is debited with cash receipts on accounts receivable. These entries are made only when the books are closed. This account is charged with the unrealized profit still in it on replevins. It is also charged with the loss on bad debts for the amount of unrealized profit remaining in it on these bad accounts. Table VIII shows how the amount of unrealized profit is determined. Though the amount credited to the unrealized gross profit account contains profits actually realized thru cash receipts, the entry is proper. From the cash records, discussed later, an entry will be made that will take the realized portion out of the unrealized account. It is to be understood that the introduction of the unrealized gross profits account is not only for taxation purposes, but also for proper closing of the books. This account should also be arranged so as to have a supporting schedule which will reflect the amount of unrealized gross profits outstanding in any year. Thus, if the unrealized gross profit is introduced for the first time in 1930, the amount of gross profits can be posted as a credit to this account, but in addition, it should be credited to a supporting schedule containing debit and credit columns

for 1930. Every posting made to the control account will also be made to the proper year column. It can readily be seen that when the accounts receivable are allocated to their respective years, these figures contain both cost and profits in them. The balances remaining in the supporting schedule to the unrealized gross profit account contain only the profit left in the receivables of a given year. It is to be noted that the unrealized gross profit account does not function as a surplus account if taken alone. No direct charges of an extraneous nature can be charged against this account. The surplus account is the place for such an entry.

Table VIII

DETERMINATION OF REALIZED AND UNREALIZED GROSS PROFIT FOR THE YEAR 1930

	Total	Cash Sales	Lease Sales	%
Sales	1,050,000	50,000	1,000,000	100
Cost of Goods Sold	630,000	30,000	600,000	60
Gross Profit (Realized and Unrealized)	420,000	20,000	400,000	40

Dr. Lease Sales	1,000,000	
Cash Sales	50,000	
Cost of Goods Sold		630,000
Unrealized Gross Profit		420,000

Based on amounts in Table VII

It is to be noted that the percentage of gross profit is determined only on the instalment sales. The reason is obvious. This rate of per cent will of course be used in

determining the amount of realized gross profits to be reported as income. In Table VIII the rate of per cent is 40 and this rate will be applied on all receipts applicable to the year 1930. Cash sales are not included because the entire profit is realized. In Table VIII the gross profit on cash sales is $20,000 and this amount will be included in the amount reported as income. Even though balances may be still outstanding on cash sales because of C. O. D. orders, the entire amount can be reported as income. The journalized entry in Table VIII will close out all the trading accounts such as purchases, opening inventory, freight, and will also bring onto the books the new inventory asset.

CHAPTER III

THE JOURNAL OF CREDITS

The credit journal is a record open for all types of credits except cash sales credit. The return of merchandise by a cash customer can be entered in red in the sales journal so that the debit to cash sales and credit to sales will be for the net amount of cash sales. Nothing is gained from entering cash sales credits in the credit journal although it can be done if desired. The columns for discounts and allowances need no explanatory remarks. The return or cancellation column is self explanatory. The "T. B." (Take Back) or replevin column needs explanation. Merchandise that is repossessed must be allocated depending upon the year in which the sale was made. This is necessary for taxation purposes. The principle is the same as used in allocating cash receipts. Allowances, discounts, cancellations, and returns can be allocated, but the assumption is that they all fall in the current year's transactions. Of course, if the above mentioned credits run into large sums, the expense or loss involved should be a direct charge against unrealized gross profit if the credit is on account of business done in some prior year. However, most of these credits can be safely called current transactions. The replevin is different.

Assume a sale of $100. the cost of which is $60. Assume further that $30. has been paid in and that it becomes necessary to repossess the merchandise. The merchandise is repossessed and an appraised cost considerably less than the original cost is usually assigned to the articles. Assume this value to be $25. It is of course impossible to charge a loss off on a tax return of $45. which amount represents the difference between the balance of the account, $70. and the value of the repossessed merchandise, $25. For taxation purposes the loss is arrived at as follows:

		%
Replevin	70.00	100
Cost	42.00	60
Gross Profit	28.00	40

Per cent of profit in year of sale was 40%.

Merchandise Value	25
Reserve for Unrealized Gross Profit	28
Loss on Replevin	17
Replevin	70

The loss on this replevin for taxation purposes is $17. and not $45. as would be expected. The $45. is a book loss which does not disturb the original profit of $40. As far as the books are concerned the entire profit originally assumed of $40. is lost and in addition $5. more is lost because of the depreciation in the merchandise value of the replevin. From another viewpoint the loss can also be determined in another way. The difference between the merchandise value when the sale was made, $60. and its value as a repossession, $25.

is $35. Thus $35. represents a loss because of a shrinkage in merchandise value. The receipts of $30. on this replevin account represent 60% towards cost and 40% towards profit. The 60% on the receipts of $30. equals $18 which shows that of the $60. cost, $18. has already been paid. Thus the merchandise is now represented as $42. The appraised value assigned to the merchandise was $25. The loss on the merchandise is now $17. Originally, a profit of $40. was made. Of the receipts of $30., 40% was profit, or stated in money value, $12 of the profit have already been realized. The balance of the original profit is now a loss and equals $28. The loss of $17. on the merchandise plus $28. out of the unrealized gross profits equals the book loss of $45.

The total of the credits is then "broken down" into the various ledger controls, and is also placed against the proper salesmen. The year column for replevins is, as already explained, an allocation of the replevin. These year columns show the composition of the replevin total. This composition is, of course, necessary for taxation purposes, as well as for informative reasons. There can be no legitimate objection to treating replevins on account of current year's business the same as other credits, namely, a deduction from sales. This can also be done on the income return. However, if the replevin is one arising because of a sale made in a previous year, the loss on it must be

figured as already shown. The treatment of replevins on the books raises a question of accounting principle. Should replevins arising from business done in prior years be treated as a trading item, or should the loss on these replevins be treated as a direct charge against the unrealized gross profit account, using each month as a basis? As far as the balance sheet is concerned either treatment will result in the same surplus amount when the unrealized gross profit account is combined with the surplus account. But as concerns the monthly profit and loss statement, a different result will arise depending upon how replevins are treated. If the replevin is treated on the monthly income statement as an item of a trading nature, the net profit or loss will be effected by the loss on replevins to the extent of such loss. If the replevin is treated as a direct charge, against the unrealized gross profit account, the monthly net profit will show better. This writer is inclined to treat replevins as an item of a trading nature. To do otherwise is only to show an untrue profit and loss statement. It is, of course, also argued the other way. However, if replevins are charged against the unrealized gross profit account, the monthly statements might show continuous profits. But how misleading this is, bacause while the business is showing continuous net profits, the surplus accounts are continuously shrinking. The surplus accounts might, eventually, reflect a debit balance which balance will increase

while the monthly income statements will reflect continuous earnings. For this reason alone, it seems advisable to treat replevins as a trading item. The entry for the treatment of replevins as an item of trading is, of course, the same as the entry for credits. The entry is as follows:

Debit, Replevins

Credit, Accounts Receivable.

The entry is in the amount of the replevin. The inventory memo account is increased by the amount of the appraised value of the merchandise repossessed, and the difference between the accounts receivable credit and the merchandise value is reflected as a loss in the trading section.

The entry for the treatment of replevins as a direct charge against the unrealized gross profit account is as follows:

Debit, Purchases

Debit, Unrealized Gross Profits

Credit, Accounts Receivable.

The debit to purchases is in the amount of the appraised value of the merchandise. The credit to accounts receivable is for the balance of the poor account. The difference is the debit to the unrealized gross profits account. The situation is indeed rare in which a profit is made on a replevin. This is usually so because of the small equity the customer has in the merchandise and also because of the shrinkage of

value in the merchandise. If a profit is realized on a replevin, the profit is credited to the surplus account. This is so because there is nothing in the unrealized gross profit account as unrealized on this replevin. The unrealized gross profit account has already been reduced and the surplus account increased thru the entry from the cash records. The column headed "Cash Paid in on Replevins" is used only for informative reasons. It reflects the amount paid in on replevins, and a ratio between the original selling price and the amount paid in can be obtained. The importance of replevins cannot be overemphasized. Profits in a retail furniture instalment house usually depend upon the amount of replevins made. One writer (9) says, "One of the principal reasons why so many furniture stores lost money in 1928 was because of the heavy loss on give-ups and repossessions. Losses on give-ups and repossessions are caused by three things,

1. In an effort to secure volume, stores 'loosen-up' on down-payments and terms,

2. Advertising lower and lower terms attracts a class of trade that cannot pay,

3. The low down-payment.

The lower the down-payment, the lower the equity, and the greater the disposition to give up the goods."

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(9) Ritter, George, Where the salesman can help: The Seng book, p. 8, July 1929

Table IX

JOURNAL OF CREDITS FOR YEAR OF 1930

Date	Total Credits	Cost Credit	Allowances	Discounts	Returns & Cancels.
	100,000	40,000	5,000	6,000	25,000

(Continuation)

Cost Credit	Replevins	Appraised Cost Credit	Salesman A Credit	Cost Credit
15,000	64,000	25,000	45,000	20,000

(Continuation)

Salesman B Credit	Cost Credit	Ledger I	Ledger II	Furniture	Cost
55,000	20,000	35,000	65,000	75,000	30,000

(Continuation)

Radio	Cost	Cash Pd. In-Replevins	1929	1930
25,000	10,000	24,000	34,000	30,000

ENTRY

Replevins	64,000	
Allowances	5,000	
Discounts	6,000	
Returns and Cancellations	25,000	
Accounts Receivable		100,000

Table II is a form of credit journal that should be used in a modern retail furniture installment concern. The closing entry of the credit journal is shown in Table II and is self explanatory. The method of closing out the replevin account has already been pointed out. The following computations will close out the amounts reflected in Table II:

Table X

DETERMINATION OF UNREALIZED GROSS PROFITS IN REPLEVINS

	Total	1929	1930
Total	64,000	34,000	30,000
Cost	36,700	18,700	1[illegible],000
Gross Profit	27,300	15,300	12,000
Per Cent		45	40

Cost Total	36,700
Appraised Value	25,000
Loss	11,700

Replevins on radio merchandise are very costly because of the nature of the article. Tubes are quickly used up, and models continually changing. Radio sales are seasonal. It is because of this reason and because of the nature of the article that a reserve must be created for heavy losses on replevins when the radio season is past. The amount of reserve could be withheld from the monthly income statement. Radio sales become heavy during the fall and winter and usually decline during the summer and spring. A survey(10)recently made brought out that in 1929 the average sales value per radio set sold was $165. as compared with $158. for the last three months of 1928 and $167. for July, August and September of 1928. Replevins will sometimes out run sales if liberal terms are not restricted.

(10) Rockford Journal, p. [illegible], June, July [illegible]

Terms on radio sales should not extend for more than ten months. Longer terms result in more replevins and losses. Surveys have been made, and are still being made, and nearly every one of these surveys has brought out that replevins are very dangerous. A survey (11) recently made among fifty representative stores brought out the point that furniture, rugs, and sweepers were proper articles to sell on the instalment plan. The reason for this is undoubtedly because the book loss arising from replevins is not as great as on other articles. The survey also brought out that the majority surveyed believed in obtaining a down-payment of 25% on furniture. This thesis concerns instalment accounting records of a retail furniture instalment business, but in order to properly understand the necessity of some specific forms or system to follow, it is desirable to survey the business at least in some respect. The survey quoted above brought out that the time to be allowed for payment in full is no where near standardized. Some state that their terms allow payment anywhere from four to eighteen months and some concerns have sold pianos on a four year basis. The merchandise value of a replevin made on an article four years old and used would usually be very small. The loss would be large unless the amount paid in nearly closed out the account.

(11) Controllers' congress of the national retail dry-goods association, Instalment selling-cost and accounting, p.6, May 14, 1928

A depression in this business is usually the cause of an increase of replevins. Without proper records the replevins may cause serious damage to a going concern. One writer (12) says that, "Liquidation of customers' accounts should keep pace with the rate of depreciation of merchandise sold to her". In other words, the life of the article sold should be divided over so many months. Payments should be based on this calculation and equal the depreciation in amount. Again the replevin is concerned. The credit journal is perhaps the most important and informative record in a retail furniture instalment house. Without it, the losses that reflect on the statements cannot be properly traced or the specific reasons ascertained. This journal, if no other, should be standardized. A certain certified public accountant (13) says, "Instalment accounting needs to be both accurately detailed and instantly explanatory so that instalment dealers may control their expenses and keep selling prices down in competition with department stores.......Trade associations should start a movement toward adoption of a standard system of instalment accounting". A field of business activity as important as is the retail furniture instalment business should be properly guided.

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(12) Editorial, Depreciation, liquidation and instalment selling: Printers' ink, p. 69, June 4, 1925

(13) Stern, Harry A.(C.P.A.), Instalment accounts: The credit stores magazine, New York City, pp.77, 101, July 1929

A very well known economist (14) says that the worst crop failure in this country this year is the failure of the instalment sales crop. Reference was made undoubtedly to the year of 1930. In connection with the economist's statement it is well to present the following table (15) taken from a very recent and authoritative publication. Especial attention is directed to the very last item and the comparative percentages.

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(14) Babson, Roger, Furniture age, p.33, November 1930
(15) Monthly review of the federal reserve bank of Boston, p.7, November 1930

Table II

SALES BY DEPARTMENTS--NEW ENGLAND DEPARTMENT STORES

1929=100

	Month of September			
	1927	1928	1929	1930
Silk and Velvet Dress Goods	111	105	100	80
Woolen Dress Goods	149	127	100	74
Cotton Dress Goods	128	114	100	84
Silverware and Jewelry	98	94	100	93
Men's Clothing	109	113	100	75
Men's Furnishings	101	100	100	92
Boys' Wear	105	108	100	83
Women's Ready-to-Wear	125	111	100	79
Misses' Ready-to-Wear	95	100	100	86
Juniors' and Girls' Ready-to-Wear	73	88	100	87
Millinery	105	104	100	97
Women's and Children's Gloves	85	102	100	107
Corsets and Brassieres	98	92	100	110
Women's and Children's Hosiery	97	97	100	92
Knit Underwear, including Glove Silk	95	92	100	73
Silk and Muslin Underwear	109	96	100	92
Women's and Children's Shoes	95	99	100	101
Furniture	99	99	100	85

	January through September			
	1927	1928	1929	1930
Silk and Velvet Dress Goods	124	110	100	89
Woolen Dress Goods	144	124	100	80
Cotton Dress Goods	114	108	100	93
Silverware and Jewelry	102	98	100	94
Men's Clothing	102	105	100	91
Men's Furnishings	98	99	100	96
Boys' Wear	107	104	100	92
Women's Ready-to-Wear	108	104	100	90
Misses' Ready-to-Wear	95	97	100	97
Juniors' and Girls' Ready-to-Wear	78	90	100	99
Millinery	103	99	100	98
Women's and Children's Gloves	101	100	100	111
Corsets and Brassieres	103	99	100	104
Women's and Children's Hosiery	95	96	100	95
Knit Underwear, including Glove Silk	101	98	100	87
Silk and Muslin Underwear	112	103	100	95
Women's and Children's Shoes	99	99	100	97
Furniture	99	96	100	94

CHAPTER IV

THE JOURNAL OF SPECIAL SALES

The journal of special sales is a sales journal in which sales such as accommodation sales, sales to employees and the like are entered. The principle involved is simply to keep out of the sales journal sales on which the profit is low. For taxation or accounting purposes the small profit made on these sales can be credited to other income, rather than to allocate the receipts and report the profit on a determined basis obtained by ratios. This journal can be of the simplest type because no instalment accounting principle is involved. The one thing to bear in mind is that sales made to employees will many times be made on an instalment basis. That is, payments will be made periodically. Because of this reason, and because small profits are made on this type of sales, all sales, if not cash sales, should be charged to special accounts receivable, rather than to the usual instalment account receivable. Cash sales may be charged to cash accounts receivable. The correct credit will come from the cash records. It is to be remembered that the receipts on account of any sales entered in this book will not be reported as income because the net profit is to be credited to other income as explained above. When reporting receipts as income, receipts on cash sales made thru this record should be eliminated, because to do otherwise would be to

Table XII

JOURNAL OF SPECIAL SALES FOR YEAR 1930

Date	Charge Sales	Cost	Cash Sales	Cost	Furniture
Year 1930	10,000	9,800	1,000	1,000	9,500

(Continuation)

Cost	Radio	Cost
9,300	1,500	1,500

ENTRY

Special Accounts Receivable	10,000	
Cash Accounts Receivable	1,000	
Special Sales		10,800
Other Income		200

permit double taxation on this type of receipt. As previously explained, it is best not to report receipts on cash sales but better to report the entire profit on cash sales, even if some balances are still outstanding and to be paid on a C.O.D. basis. The only other factor to be aware of is that this record is one to be considered in the memo account of the inventory record. Table XII is a satisfactory form of a journal of special sales.

The closing entry as shown on Table XII is not difficult to understand. The special sales account is credited for the cost of the merchandise sold and is eventually a credit to purchases in order to show the true net purchases made for the sales volume. None of the questions or theories involved in any of the records so far discussed arise in this book. There is no question of gross profits ratio, unrealized gross profits, down-payments, collections, or replevins. In connection with this account, it seems advisable to consider the inventory memo account because it ties up with the sales records. Table XIII shows the composition of the inventory memo account. The figures in Table XIII are assumed figures and show how a memo account of inventory can be kept in a retail furniture instalment house. This, of course, implies that a system of costing each sale is in use. The entry to the inventory memo account of purchases is a support to the purchases journal. The freight inward is "broken down" into

departments and then posted to this memo account. The figure for replevins and credits is obtained from the journal of credits. The cost of goods sold is obtained from the record of sales. .

In some stores, the sales journal is the only journal used for transactions of a trading nature. In such a case, only the net cost of goods sold would be shown. The replevin figure is hidden in the sales journal. This method of treating credits to cost is not advocated. It is better to show items separately. The special sales cost is obtained from the journal of special sales and is a supporting record to the credit balance in the account called special sales. This memo of the inventory account could be incorporated into the general books involving entries of debit and credit, but it seems unnecessary and not worth the work involved in opening the various necessary accounts. The total inventory value at the end of the period is then transferred to the profit and loss statement as the closing inventory and then later placed on the current balance sheet.

The stock record system should be so arranged, by quantity value and value in dollars, as to afford a monthly check on the control of the departments. Just as trial balances are taken, so should balances of money values be taken of departments and compared with the controls in

the inventory account. Errors recently made can thus be easily located. Too often are stock records considered as of minor importance when a system as outlined above can very easily be used as an internal check on merchandise transactions.

Table XIII

PERPETUAL INVENTORY RECORD

	Total	Furniture	Radio
Nov. 1, 1930	75,000	60,000	15,000
Purchases	50,000	30,000	20,000
Freight	500	300	200
Replevins and Credits	40,000	30,000	10,000
Total	165,500	120,300	45,200
Cost of Goods Sold	66,000	50,000	16,000
Special Sales-Cost	7,900	7,000	900
Total	73,900	57,000	16,900
Balance December 1, 1930	91,600	63,300	28,300

CHAPTER V

MISCELLANEOUS CHARGES

The introduction of miscellaneous items into the sales record, credit record, or even the special sales record does not produce a difficult situation involving accounting principle. But the introduction of these items must be considered as entries to be made on the books and perhaps even on tax returns. In a cash or charge store, miscellaneous items such as will be discussed are not in use. In the retail furniture instalment houses there are three general classes of charges which are sometimes added to the instalment sale. These are:

1. Carrying charges,
2. Finance charges,
3. Interest charges.

The first one mentioned, the carrying charge, is based on the length of the new sale, or even "add-on" sale or "re-open" sale and equals 1/2 of 1% per month usually. The work involved in computing 1/2 of 1% per month on outstanding balances each month is considerable. Some stores therefore arrive at the result by the following method.

Table XIV

Instalment Sale	500
Down-Payment	50
Account Receivable Balance	450
Terms of $30, per Month	15 Months
In Terms of Per Cent	7½%
7½% x 450 Equals Charge of	33.75
Instalment Sale	500
Charge	33.75
Total sale	533.75

It is to be understood that ethically the computation is not correct, because it should be figured on outstanding balance at each monthly period. In some stores the above rate of 7½% would be applied to the original purchase of $500, thus not even allowing for the down-payment. This is, of course, also unethical. In fact, any amount of money paid in on an account before the merchandise is delivered should be considered as a deduction from the purchase price before computing charges to be made. The carrying charge is sometimes of a temporary nature depending upon fulfillment of the lease contract. If terms are lived up to, the charge will sometimes be deducted with the final payment. This also holds true of finance charges, which may or may not be permanent. It all depends upon the wording of the lease contract. Interest charges, however, are usually of a permanent nature. Whatever the nature of the charge, ethics should be considered in the computation. We are of course concerned only with the accounting procedure necessary regardless of the names assigned to the various charges. If the charge is a permanent one, it belongs on the account receivable and should be treated as other income. Some retail furniture instalment houses treat the permanent charge as a part of the sale. This treatment is of course incorrect and misleading. It tends to inflate sales, reduce percentage of down-payments, and acts as a decreasing factor in the section provided for other income. The granting

of terms is also involved. Terms should be based on the total sale including the permanent charge, or otherwise the desired rate of collections will not be obtained because the amount of charges on the accounts receivable will not, and should not, be considered as paid until the merchandise is all paid for. The permanent charge, if treated as other income, will not be misleading in the mark-up. If included in the sale, it will increase the mark-up erroneously and because of poor accounting procedure. A column should be opened up in the sales journal called "Permanent Charges on Accounts Receivable". The amount of this charge should be entered in this column and in the ledger control for accounts receivable. It should not be entered in any other column, unless it is desired to enter it in the salesmen's columns. It has no place in the columns for departmental sales. The entry to bring this item on to the books would be as follows:

Debit, Accounts Receivable
Credit, Other Income-Permanent Charges on Instalment Accounts Receivable.

The same principle is involved as concerns the credit journal. A similar column should be opened up in the credit journal, and the charges on returns, cancellations, and replevins should be entered there. In other words, the procedure already outlined for the credit journal is not changed any. One additional entry is introduced. In no case should any portion of permanent charges be considered as paid until the merchandise

is first paid for. The entry from the journal of credits for the charges would be as follows:

Debit, Other Income-Permanent charges on Instalment
Accounts Receivable
Credit, Accounts Receivable

Charges of a permanent nature are purely items properly called other income or if a debit they become other charges. If treated on the records as an addition to sales, this, of course, increases the amount of cash necessary to report as income because of the higher rate of gross profit obtained. The special journal is usually in no way effected because charges are not, as a rule, added to these sales of a special nature. It seems perfectly legitimate to include in the accounts receivable permanent charges. Permanent charges have already been discussed from the viewpoint of accounting procedure both for instalment record purposes and for purposes of taxation. But suppose the charge is not of a permanent nature. How then should this item be treated?

Charges of a temporary or contingent nature need other treatment. Some retail furniture instalment houses place a charge, similar to one already discussed, on the customer's account but this charge is to be deducted with the last payment if terms of the contract are fulfilled. A column properly headed should be opened up in the sales and credit journal and the temporary charge can be entered in this column. But should it be posted to the accounts receivable? Yes. To do

otherwise would be unwise. The amount of these charges, however, should not be considered as income anywhere. The total of these charges should be credited to a suspense or reserve account and entries coming from the credit journal should be debited to this account. The net balance on this account should in addition to the regular reserve be deducted from the accounts receivable. This system is better and more logical than one calling for the omission of this charge from the books entirely. The same purpose is accomplished by the treatment outlined above. In this situation,as well as that involving permanent charges, the sales price must first be paid before these charges are to be considered as permanent if the account is overdue. To treat contingent income as income is only to inflate the accounts receivable, inflate income, inflate taxes, and inflate mark-up and gross profit. A condition of this nature is, of course, untrue and shows overstated results. The following entries for temporary or contingent charges will come from the sales and credit journal:

Debit, Accounts Receivable
Credit, Contingent Charge on Accounts Receivable
These charges are of a contingent nature and always added to accounts receivable for the current month as taken from the sales journal.

Debit, Contingent Charge on Accounts Receivable
Credit, Accounts Receivable
Reduction of contingent account because of charges or cancellation of sale and replevins as taken from the journal of credits.

Some retail furniture instalment houses use the general journal for miscellaneous charges and credits but the entries are numerous and the sales journal is the proper place for entry of an item which is added to the receivables and computed the same time the sale is computed. A subsidiary record must also be kept of the accounts which were obliged to pay the extra charge because of extra time taken in paying the contract amount. Monthly, or whatever period is desired, the realized charges should be put in the form of a journal entry such as this:

Debit, Contingent Charge on Accounts Receivable
Credit, Other Income.

The credit to other income is made provided the income is realized on sales made during the current period. If the income realized is because of sales made in a past period, the credit is one to surplus. In no way does the account of unrealized gross profit become effected. This is so because the contingent item is not considered as anything but as a deduction from accounts receivable until this item becomes a realized profit. At the time the charge becomes a real profit it must be reported as income on the tax return.

If the charge is one called interest, some retail furniture instalment houses use it as a credit against the interest expense on their books. This reasoning is not at all illogical. The interest charged the firm is usually because of loans contracted in order to be able to carry the

accounts receivable. Interest, therefore, charged to these accounts receivable can be credited to the interest expense account. In order to quickly and accurately determine the rate of interest to use on the instalment sale, some concerns use a schedule similar to the following one, converting the months into a ratio of 1/2 of 1% per month:

Table XV

Weeks	Months	%
52	12	6
57	13	6½
61	14	7
65	15	7½
70	16	8
74	17	8½
78	18	9
83	19	9½
87	20	10
91	21	10½
96	22	11
100	23	11½
104	24	12
109	25	12½
113	26	13
117	27	13½
122	28	14
126	29	14½
130	30	15
135	31	15½
139	32	16
143	33	16½
148	34	17
152	35	17½
156	36	18

Because of carrying charges or the like, the question often arises as to how to determine the basic figure. The cash-plus-carrying charge plan has met with success and gaining

favor. This plan adds a charge to the cash price and the cash price is thus the base and properly so. The use of the instalment price as a base is unwise and very often erroneous. Many of the states in the middle west follow this plan (16). Assume a situation in which a deductible charge, one of a contingent nature, is added to the account receivable and credited to an account for contingent income. Assume further that the account receivable is overdue. A condition as such immediately converts the contingent charge into one of a permanent nature. The question will now arise as to the proper procedure to adopt in a situation such as outlined above. Should the contingent account be charged and other income credited, or should, the credit be to the unrealized gross profit account? It will be claimed that if the amount due on the furniture is in arrears that it will be unlikely that the carrying charge will ever be collected. This reason is not without favor. However, the better plan is to charge the contingent account and credit other income. If the other income is not realized, or if a replevin is put thru the books, the carrying charge portion of it will be charged against other income. There is, of course, no serious objection to crediting the unrealized gross profit account except that the amount of cash to be reported as income on the tax return is needlessly increased. It is recommended that retail furniture instalment houses adopt a uniform and

(16) Editorial, Detroiters sold on carrying charge: Furniture record, p. 41, November 1930

standard rule regarding these miscellaneous charges. This policy is needed not only for uniformity in practice but for standardization of the treatment items of this sort should receive. Many concerns have no other charges whatsoever. They simply increase the selling price of the goods to the extent of the charge. The following article by a Boston attorney (17) well acquainted with the retail furniture installment business through his association with the Home Furnishers Association of Massachusetts bears out the point that uniformity is very desirable: "The retail dealers of Massachusetts have probably been concerned more over the question of marking prices on goods, during the past year or two, than any other subject. Massachusetts was a pioneer in installment business, or selling on conditional sales. The so-called thirty day provision in the law and the Massachusetts statute regulating leases stood the test many years and has been the model for a number of other states.

Up to a few years ago the installment business in other lines did not amount to a great deal, but in the past ten years practically every line of merchandise, including automobiles, has been sold on lease.

The furniture dealers have sold their goods on an installment basis without consideration of the cash customers and having in mind the fact that probably 80% of their goods

(17) Yont, A.E., Editorial: The home furnisher, p.4, October 1930

were sold on installment. They advertised extensively one price and it was embarrassing to handle the small percentage who desired to pay cash and who were undoubtedly entitled to a discount. Some of the dealers claimed that they could afford to sell on installments as cheap as they could for cash but, of course, this was not borne out by reason. A few of the dealers have made a discount for cash and others have added a small percentage for installment sales. The fact remains, however, that by far the greater number of retail dealers have advertised on a basis of installment sales because the business was largely on installments, and they were compelled to make discounts for the small cash customers who purchased on other terms.

The automobile people did not fall into this error. Prices were fixed and unchangeable. A small carrying charge was added on installments so that the customers knew exactly what they were paying for. Some two years ago Mr. Eagle Freshwater gave a series of talks in this locality, called attention to the error of the present conditions and earnestly recommended that all prices be fixed with a carrying charge for installment sales. An earnest effort has been made throughout the country to put the installment business on a single basis by showing the customer that he or she is paying for cash or installments. It is claimed by many dealers who have adopted the new plans that their collections have been much

better, that the thrifty purchaser will pay the account much more promptly if she realizes that she is saving money by so doing. It is certainly no inducement for a customer to pay up promptly when dealers carry the account sometimes from 15 months to 2 years without making any charge above the original price. Some of them attempt to charge interest but without success.

We believe that with the present tendency to sell on closer margin above cost that the dealers will be compelled to draw a distinction between the installment and the cash business and to charge for carrying the customer until the bill is paid. The question is troubling a great many dealers who would like to make an extra charge to the lease customers, but the difficulty is, they have been advertising for years that they are selling on credit at the same prices as the dealers who sell for cash. The western dealers have apparently been more progressive and have put the change into effect. Thus far results have been very satisfactory, but we shall follow their experiment with considerable interest."

CHAPTER VI

THE CASH RECORDS

In the cash records we are concerned with collections and down-payments. The allocation of receipts is not difficult but must be understood. In theory this allocation is not different from allocation of replevins. An allocation requiring two or even more allocations is based on the same principle as one requiring only one allocation. Provision must be made in these records for the down-payments on new, "re-open", and "add-on" sales. Provision must also be made for collections. In addition, payments on account must be allocated to their proper monthly column as already explained earlier in this thesis. The original book of entry is in the form of a daily record of receipts. Table XVI shows this record. The first column is the total column from which allocations are made into the ledger columns, collection column, down-payment column for new sales, down-payment column for "re-open" sales, and down-payment column for "add-on" sales. Thus, at the end of the day, the total receipts can be transferred to the summary book. In fact all totals from the daily sheet are transferred to the summary book of cash receipts. The total column agrees with the sum of the ledger control columns, and also with the sum of collections and down-payments considering that receipts on cash sales, and special sales, and items of a general nature are included. The allocation for years is

Table XVI

DAILY RECORD OF CASH RECEIPTS

Lease Number	Name	Amount	Ledger I	Ledger II	Collections

(Continuation)

Total D.P.'s	D.P.'S New Sales	D.P.'s Re-Open Sales

(Continuation)

D.P.'s Add-On Sales	Year 1930	Year 1929	Jan.	Feb.	March

(Continuation)

April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Cash-Special Sales

(Continuation)

Cash Sales	General Items

Figures are omitted from this table because Table XVIII is similar to this table except that it is a summary table and contains yearly amounts.

made simultaneously with posting to the individual account so that the sum of the totals of the year columns plus cash received on cash sales, special sales, and sundry items will also equal the total receipts column. The accounting principle involved in allocating receipts by years for taxation purposes has already been discussed. But the modern retail furniture instalment house does not employ any system whereby actual collections can be compared with what these collections should be according to the terms granted. The most important allocation is not provided for. The allocation of receipts on a monthly basis is the most important one which should concern the executives of a retail furniture instalment house. The introduction of twelve monthly columns designated by the names of the various months in the calendar would solve the problem. This allocation can also be done simultaneously with posting. If customer A pays $10. it is posted to the credit of his account and then allocated to a year column corresponding to the year in which he made his purchase. The other allocation can be made at the same time by referring to the account, as already done when making the allocation to the year column, and thus entering the payment in the month corresponding to the due date of the given payment. The sum of the totals of these columns should equal the total of the collections. These allocations are then transferred to the general ledger. These credits to the subsidiary account with

the accounts receivable will enable a comparison between collections as they are and what they should be. The system as outlined above requires only one additional operation, yet it produces very important information. Collections may be good and the system suggested might indicate that this condition is so only because of collections on very recent sales. The older accounts may be very delinquent, or even the reverse may be true. The older accounts may be providing the bulk of receipts and the new accounts might be very delinquent. If collections are poor, this system points out the very month in which the delinquent accounts were sold. All this is easily determined by reference only to one subsisiary account. Not even the handling of the physical accounts is necessary. This subsidiary account acts also as a check up on the efficiency of the credit department. As it is now, many retail furniture instalment concerns are running their business in a haphazard manner. They have nothing to guide them except certain arbitrary percentages. Instead of comparing facts with certainties, they are comparing guesses with certainties. The retail furniture instalment business cannot be compared with any other business. It stands by itself and must accept systems advocated by authorities. A standardized system of accounts is advocated for the retail furniture instalment business and if only for the good of the business, this system should be adopted.

Down-payments and collections are the sources from which the retail furniture instalment merchant obtains his funds. The following table (18) is very informative from a collection viewpoint:

(18) Cordell, Harry [illegible]., Instalment credit in the furniture trade: Furniture record, p. 37, November 1930

Table XVII

RELATIVE PROMPTNESS WITH WHICH PAYMENTS WERE COMPLETED ON 3815 INSTALMENT SALES CLASSIFIED ON THE BASIS OF THE AMOUNT OF THE DOWN-PAYMENT

Item	Nature of Down-Payment	Total No. of Instal. Contracts #	No. of Contracts on Which Pymts. Were Completed Within 90 Dys.	Within Contract Period ##	Total
Sewing Machines	Regular*	485	129	233	123
	Under reg. over $5.**				
	$5. or less	146	29	82	35
Washing Machines	Regular	89	22	39	28
	Under reg. over $5.	52	7	23	22
	$5. or less	135	13	55	67
Rugs	Regular	324	100	90	134
	Under reg. over $5.	171	52	52	67
	$5. or less	34	8	14	12
Kitchen Cabinets	Regular	2	1	1	
	Under reg. over $5.	1		1	
	$5. or less				
Phonographs	Regular	47	6	18	23
	Under reg. over $5.	4		1	3
	$5. or less	18	2	5	11
Wearing Apparel	Regular	142	46	46	50
	Under reg. over $5.	45	15	17	13
	$5. or less	5	2		3
Radios	Regular	310	89	106	115
	Under reg. over $5.	170	36	72	62
	$5. or less	8	3	1	4
Misc. Electrified Appliances	Regular	10	1	1	8
	Under reg. over $5.	4	2	2	
	$5. or less	5	2	1	2
Vacuum Cleaners	Regular	217	58	100	59
	Under reg. over $5.	180	22	91	67
	$5. or less	361	31	169	161
Ice Refrigs.	Regular	31	16	2	13
	Under reg. over $5.	7	1	3	3
	$5. or less	57	19	9	29
Ironing Machines	Regular	15	2	7	6
	Under reg. over $5.	5	1	1	3
	$5. or less	53	15	14	24
Stoves and Heaters	Regular	53	17	9	27
	Under reg. over $5.	53	13	16	24
	$5. or less	108	30	42	36
Silverware and Jewelry	Regular	16	5	9	2
	Under reg. over $5.	7	3	2	2
	$5. or less	2	1		1
Furniture	Regular	289	107	80	102
	Under reg. over $5.	103	22	37	44
	$5. or less	35	9	10	16
Mechanical Refrigs.	Regular	5	2	1	2
	Under reg. over $5.	11	5	5	1
	$5. or less				
Totals	Regular	2035	601	742	692
	Under reg. over $5.	813	179	323	311
	$5. or less	867	164	402	401

* That is, an amount equal to not less than 10 to 25% of the purchase price. The normal minimum down-payment requirement of this store was 10,15,20, or 25% of the purchase price - the percentage depending upon the nature of the goods purchased.

** Sales made on down-payment terms lower than the normal requirements "are usually the result of some special event in the store when certain items are advertised at a very low down-payment".

\# On 34 contracts under which goods were repossessed, payments were considered as completed at time of repossession.

\## Does not include contracts on which payments were completed within 90 days. Contracts normally allowed 6,8,10, or 12 months for the completion of payments, the figure depending upon the nature of the merchandise sold.

Table XVII
(Continued)

	Number of Contracts on Which Indicated Number of Additional Months Were Required to Complete Payments													Percentage of Total Contracts Completed One or More Months Over Contr.Period
[illegible]	1	2	3	4	5	6	7	8	9	10	11	12	More Than 12	
[illegible]	56	33	14	10					1				9	[illegible]5.37
[illegible]	17	10	4	4										23.97
[illegible]	14	7	3	1	1								2	31.46
[illegible]	10	4	3	1	1								3	42.30
[illegible]	17	10	8	1	2								29	49.63
[illegible]	33	28	25	10	3		2		1			1	1	41.37
[illegible]	31	18	6	4	3	4			1					39.18
1[illegible]	1	7		1	1	1	1							35.29
[illegible]	9	6	3		1		2						2	48.95
[illegible]	1	1	1											75.00
11	4	3	2			1							1	61.10
[illegible]	21	8	3	7	2	3	3		1	1	1			35.20
[illegible]	7	1	1			2	1				1			28.88
[illegible]	1	1	1											60.00
[illegible]	58	10	22	10	9	2	2	1					1	37.11
[illegible]	22	7	8	9	6	4	2	3					1	36.47
[illegible]	[illegible]	1				1								50.00
[illegible]	[illegible]	2	1	2		1								80.00
[illegible]	2													40.00
[illegible]	28	14	9	5	1	1		1						27.18
[illegible]	34	18	7	4	[illegible]	1							1	37.[illegible]
[illegible]1	70	55	19	3	5	3	[illegible]	1					[illegible]	14.60
[illegible]	7	5		1										41.94
[illegible]	1		1	1										42.87
[illegible]	15	8	1	[illegible]	[illegible]	1								50.88
[illegible]	3	2	1											40.00
[illegible]													3	60.00
[illegible]	9	4	1		1								9	45.[illegible]9
[illegible]	11	10	2		1	1	1						1	50.95
[illegible]	14	5	3		1	1								45.[illegible]9
[illegible]	16	15		4	1									33.33
[illegible]		2												12.50
[illegible]	1	1												28.58
1	1													50.00
[illegible]	51	17	13	9	4	4	[illegible]						[illegible]	35.28
[illegible]	15	7	7	12	2		1							42.72
1[illegible]	5	3	5	2		1								45.72
[illegible]		2												40.00
1				1										9.10
[illegible]	323	146	96	55	22	12	12	2	3	1	1	1	18	34.00
[illegible]	136	62	37	32	15	12	4	3	1		1		8	38.25
[illegible]1	158	119	41	17	12	8	4	1					41	41.47

Table XVIII

SUMMARY OF CASH RECEIPTS FOR YEAR OF 1930

Total	Ledger I	Ledger II	Collections	Total D.P.'s
600,000	238,000	300,000	438,000	100,000

(Continuation)

D.P.'s New Sales	D.P.'s Re-Opens	D.P.'s Add-Ons	Year 1929
70,000	10,000	20,000	126,000

(Continuation)

Year 1930	Jan.	Feb.	March	April	May	June	July	Aug.
313,000	20,000	20,000	25,000	25,000	30,000	35,000	40,000	38,000

(Continuation)

Sept.	Oct.	Nov.	Dec.	Special Sales	Cash Sales	General Items
40,000	50,000	55,000	60,000	10,000	50,000	2,000

Table XVIII shows the type of cash summary book advocated. The closing entries follow:

Debit, Cash
Credit, Accounts Receivable
Credit, Cash Accounts Receivable
Credit, Special Accounts Receivable
Credit, Sundry Items

The debit to cash is for the total of the entire receipts for the month. The credit to accounts receivable is for the sum of the down-payments and collections. The other credits are self explanatory. These are the only postings necessary to the general ledger. All other entries are to subsidiary accounts necessary for informative reasons. Two very well known concerns (19) have experimented for years on some type of machine which would solve the accounting problem in the retail furniture instalment business. Each of these concerns has now especially provided a machine which they contend will solve the involved accounting problem. Both types of machine are good as far as they go, but neither goes far enough. It is admitted that either machine will produce a neater piece of work more accurately in less time, but at the same time it is contended that neither machine will solve the accounting problem involved.

In a banking publication (20) the posting machine is highly spoken of. It is pointed out that accumulative figures are presented for allocation by year of sale. Down-

(19) National Cash Register Co., and Burroughs Adding Machine Co.
(20) Hogan, Robert A., Collection follow-up work simplified in this system: The skyscraper, p.16, October 1930

payments, new sales, and information of a like nature is also accumulated. This is very true, but on the other hand, the machine does not go far enough. Down-payments must be separated in order to reflect the amount of down-payments on new, "re-open", and "add-on" sales.

It is to be remembered that from the cash summary book is obtained the information necessary to obtain the gross profits realized. Often, the question will arise as to the proper treatment of refunds. It is contended that refunds should be handled on the daily cash sheet by use of an entry in red ink. This theory of accounting procedure is objected to on various grounds. The adoption of such a policy will defeat many purposes and accomplish very little. Among the many objections are the following:

1. Total receipts are not all deposited
2. The receipts record becomes also a disbursement record
3. Collection sheet becomes a record requiring debit and credit entires
4. Daily receipts suffer because of entries belonging to prior day's collections.

The advantages given are usually as follows:

1. Net collections are immediately obtained
2. Does away with necessity of issuing checks
3. Tax return is more easily computed.

The objections, without a question, overweigh the advantages and for this reason refunds should not be handled through the cash receipts records. Every effective accounting system requires the depositing of all daily receipts and the cash receipts

records should forever remain receipt records and not become a combination of receipts and disbursement journals. All entries from the cash receipts journal require usually the posting of a credit to some account. The principle should not be changed so as to require debit and credit postings by the same clerk. It opens the records to more probability of bookkeeping errors. The net collections of a given day are not effected by refunds handled from the records, but the total receipts figure is understated by the amount of these refunds. Refunds nearly always are an offset to down-payments already deposited. For this reason it is desirable to handle refunds through the petty cash book or check register so that no informative figures will be incorrectly recorded even if the record is a daily one. The refunds should also be allocated according to the year in which the sale was made. This is so because of taxation purposes. However, by far the greater majority of refunds, if not all of them, will belong to the current period. These refunds should be deducted from the gross cash receipts. The use of the gross profit ratio on the net cash receipts will thus produce a smaller amount to report as income than if the refunds were ignored. Refunds are proper deductions from gross receipts in order to accurately set forth the profit realized on cash receipts. If refunds are handled through the cash records the net collection figure can be easily obtained without any computations needed. There is no need to issue checks and the computation of the tax return is made easier. Refunds will, of course, be also

debited to the subsidiary form in the down-payment column or if only one column is provided for down-payments in the subsidiary record, the entry can be made in red ink. Many retail furniture instalment concerns ignore this item of refunds and do not even take credit for it as a deduction which can be made on the tax return.

In connection with the cash records another problem arises. A C.O.D. payment is a part of the down-payment of a lease sale. This also holds true for any amount paid in prior to delivery. Assume, therefore, a sale of $100. on which $10. is paid in, the terms to be as follows:

$10. C.B.D. (cash before delivery)
$10. C.O.D. (cash on delivery)
$5. Weekly.

Assume further that the sale is made on the 30th day of the month. On the following month the merchandise is delivered but on the first day of this month, the ten dollars C.B.D. is paid, and on delivery the ten dollars C.O.D. is paid. The twenty dollars thus collected becomes a down-payment in the following month while the sale is one of the prior month. As far as the yearly computations are concerned the result will not be effected. But how about the monthly percentages? The month following the sale gets the benefit of the additional down-payment while the prior month suffers to the extent that the following gains. Percentages obtained through such a procedure are inaccurate. Most of the retail furniture instal-

ment concerns make no provision in their records for the above raised question. The simplest and easiest way to handle this situation is as follows: "Pull out" the sales and down-payments, for statistical purposes only, of those sales the delivery of which is for the next month. The following month the list containing these sales and payments which were not included in the percentage computations of the prior month can be discarded or ignored. The problem of obtaining the proper down-payment or collection percentage is by no means an easy or minor one. It is very important that the correct percentage be obtained not only for business reasons but also for taxation purposes. As already pointed out, the down-payment percentage determines whether or not an instalment concern can avail itself of the special privilege of reporting income on a basis of receipts. A notify sale, one in which a purchase is made but delivery deferred, presents the same problem. There are two ways of handling such situations so as not to produce erroneous percentages. Because such sales as notify sales may be cancelled before delivery, it is recommended that such sales be kept out of the records until the delivery date is known. Payments on such sales must be handled through credits to a suspense account which should be treated as a liability on the balance sheet. All amounts paid in before delivery can then be charged to the suspense account and credited to the accounts receivable and be treated as a down-payment when the delivery of the merchandise becomes a certainty. The sale can now

also be treated as an entry for record on the books. The other method would be to allow the sale to go through the records and to later "pull out" the sale and payments in order to obtain true percentages. This method requires additional records, such as a list of the sales made in such a manner and also the receipts made on the account. As soon as delivery of the merchandise is made, these records must be changed. This method is not satisfactory because of all the work involved. The former method suggested above is by far the best. The sale is kept out of the records until it becomes a definite sale, and the payments received are treated as suspense items. The income tax return under the first method outlined does not receive any unnecessary benefit. Under the second method it would seem best to report the cash received as income and pay taxes on sales not yet made. The method used by many and probably most of the retail furniture instalment concerns in obtaining down-payment or collection percentages leads to erroneous and false conclusions. Down-payments taken as a whole are divided by either net or gross sales depending upon the system employed, and the result is considered as the down-payment percentage for the period. The result is not a correct reflection of the period's activity. Notify sales have been included as sales on which only the down-payment was considered a down-payment, while other payments on these same accounts are considered as collections. One month receives the benefit of

down-payments to the detriment of another month. Needless taxes are paid, and comparison between yearly figures or even monthly figures for corresponding months is not informative, let alone being accurate or correct. The installation of a system of accounting for retail furniture instalment houses as outlined above would prove very beneficial to the executives and would also be a factor in determining the soundness of prevalent policies in regards to percentages or amounts which should be collected. In most concerns, sales are usually an indication of the value of a firm. Yet this alone is, of course, not the only determining factor. In the retail furniture instalment business, sales can many times be increased by the extension of liberal terms. The granting of liberal terms can very easily turn an account receivable usually designated as a current asset into a frozen asset. Is it permissible to include in current assets accounts very delinquent? Is it proper to classify as current assets accounts whose balances are not due until say two or even two and one half years hence? Obviously, no. Yet the granting of easy terms will increase these receivables and improper records will conceal vital information so that results may appear to be satisfactory whereas in reality they are not so. To a retail furniture instalment concern, the very life of its business depends not alone upon volume because volume can sometimes be easily obtained. A sound volume of business is good.

Equally vital is the ever present factor of down-payments and collections. If these two factors are satisfactory, the volume of business will usually be a sound one. How important are these percentages of down-payments and collections and yet the retail furniture instalment trade has done nothing towards systematizing their records in order to function properly. The retail furniture instalment business must standardize its records in order to properly and effectively function. In a survey made (21) the results of percentages of down-payments obtained in the furniture trade are shown in the table below.

Table XIX

DOWN-PAYMENT REQUIREMENTS OF 103 FURNITURE STORES

Per Cent of Purchase Price	Number of Stores
10	19
15	3
20	19
25	20
33-1/3	10
5 to 10	1
5 to 20	1
5 to 30	1
10 to 20	2
10 to 25	2
10 to 33-1/3	1
15 to 25	1
20 to 25	2
20 to 33-1/3	2
20 to 45	1
25 to 33-1/3	6
Average about 12	2
Flexible- about 25	1
Usually more than 25	1
25 on large sales	1
At least 10% on accounts over $100.	1
"Various";"no definite amount"; "to suit customer"; etc.	6

(21) Cordell, Harry W., Instalment credit in the furniture trade: Furniture record, p. 36, November 1930

The flexibility of down-payments needs correction as well as the terms of payment. In fact, certain merchandise should not be sold on an instalment basis. A fixed sales amount should be decided upon as the minimum sale upon which the instalment privilege will be allowed.

The cash records will reflect very little cash received on account of instalment sales made during the last month of the year. For this purpose it is advisable to open a column in the subsidiary record of accounts receivable by months to reflect balances yet to become due in the next period. For convenience only one column was opened but it is much better to open up all the necessary columns rather than do it later when payments may already have been made on such balances as were due in the next period. With the closing of the cash receipts records, it becomes necessary to determine the amount of profit in the receipts for taxation purposes. The following table will show the method of determining this result.

Table IX

DETERMINATION OF REALIZED GROSS PROFIT ON CASH RECEIPTS

	Total	1929	1930	Cash Sales
Total	469,000	123,000	313,000	50,000
Cost	287,100	69,300	187,800	30,000
Gr. Profit	201,[illegible]	53,700	125,200	20,[illegible]
%		55	60	actual

From the results obtained in Table IX can the tax return be made out. The opening figure on the return, the net income, is $201,900. This figure represents the percentage of profit in the receipts obtained for the year. Without proper records many concerns would be obliged to file their returns on an accrual basis.

CHAPTER VII

BAD DEBTS IN THE ACCOUNTS RECEIVABLE

The accounts receivable of most retail furniture instalment concerns constitute the bulk of the assets. For this reason alone, this asset should be properly recorded. As already suggested, the accounts receivable should be recorded in separate subsidiary accounts depending upon the year in which the accounts were obtained. One accountant(22) says that, "Unlike conditions in the non-instalment house, increasing sales reduce rather than increase working capital. Customers are loaded up and proprietors are lenient in order to obtain sales; terms are based on the amount of unpaid balance rather than on the length of life of goods which are sold". This accountant undoubtedly feels that lenient terms increase accounts receivable and also bad debts. For this reason he also suggests that, "If a comparison between current assets and current liabilities is to mean anything, the factor of time must be considered". He suggests that accounts receivable be aged in this manner:

Accounts Receivable

Delinquent
Due in 90 days
Due in 90 days to 6 months
Due after 6 months.

The above record would, of course, facilitate matters in determining the value of accounts receivable for statement

(22) Musselman, D. Paul, Instalment accounts receivable: The journal of accountancy, pp.332,333, November 1927

purposes. He also recommends the following treatment of the above classified accounts.

Accounts Receivable

	Book Value	Reserve	Net Value
Due in 90 days	x x	x x	x x
Due in 90 days to 6 months	x x	x x	x x
Due in more than 6 months	x x	x x	x x
Delinquent	x x	100%	none

The suggestion is often made to reduce volume rather than increase it by picking out the good risks. One authority (23) a vice president and general manager of a large corporation says that he considers it unbusinesslike to sell merchandise on the instalment plan on articles having a sales price from $150. upward unless at least 10% is paid down, unless of course, the buyer is known. This authority, however, neglects to say anything about the terms. The weekly or monthly terms, it seems, play a very important part in any instalment sale especially if the sale is one requiring the delivery of a radio set. The system already outlined in regards to accounts receivable balances by years, and also the keeping of the unrealized gross profit account by years, it seems, serves as a great aid to determine the age of accounts receivable still open on the records. The classification is, of course, on a yearly basis, and not on a 90 days basis. The question of determining the amount of reserve necessary for the accounts is not so difficult when the records provide for proper classification. Very

(23) Griffin, G.Brewer, Depreciation, liquidation, and instalment selling: Printer's ink, p. 70, June 4, 1925

few retail furniture instalment concerns segregate their accounts receivable on the balance sheet. The unrealized gross profit is shown as one amount, or is even included in the surplus account. For bookkeeping purposes, this method may be all right, but for statement purposes some sort of classification is desirable. If this is not done, the reader of such statements, unless he is intimately acquainted with the type of business and its policies, is seriously misled. Accounts shown as current assets may in reality be assets of very little or even no value. Records reflecting such a condition are false and are falsifying facts and conditions. One writer(24) says that, "A balance sheet showing unrealized gross profits may seriously mislead the non-technical reader. It appears to be a surplus reserve - a part of the net worth - but in truth, an undetermined part of it is, on the contrary, a deduction or offset to an asset-accounts receivable". His reason for stating the situation as he does is undoubtedly because of delinquent accounts which are not written off or even properly provided for. Thus we see that a loss is contained in some ratio in the account with unrealized gross profits. A charge-off because of a bad debt is therefore a charge against the unrealized gross profit account. For bookkeeping purposes, it is proper to show the entire amount charged off as an item of deduction from the profit in order to obtain the net profit. Care must be exercised in taking the

(24) Musselman, D. Paul: Instalment accounts receivable, The journal of accountancy, p.326, November 1927

account out of the proper year when crediting the accounts receivable. The charge on account of the bad debt is clearly one against the operations of the current period. Some accountants suggest that losses incurred in this manner are a direct charge against the unrealized gross profit account and do not belong to the current period. The fallacy in this theory has already been discussed in the section devoted to the discussion of a like theory in regards to replevins. The best and easiest method is to treat the loss as one of the current period. At the end of the year, the unrealized gross profit account must be adjusted to reflect the withdrawal of the profit still contained in it. This is because the account has already been charged off as a bad debt. For taxation purposes, the entire amount charged off as a bad debt cannot be claimed as an item of deduction. Assume an account with a balance of $100. long overdue. It is decided that this account is worthless and consequently it is charged off by a debit to loss on bad debts and a credit to accounts receivable. For bookkeeping purposes, the $100. is reflected as a deduction from income in the computation of the period's net profit. For taxation purposes this is not permissable. When the sale was originally made was the entire sale reported as income? No. Only a portion, depending upon the amount received in cash, was reported. For this reason, the same procedure must be followed. The loss to be reported is one that determines the loss by considering the amount of gross profit made and the

amount paid in using the ratio of gross profit made in the year in which the account was opened. Table XXI shows the necessary computations. Assume $6,000. of bad accounts are written off by the following bookkeeping entry in a given month:

Debit,	Reserve for Loss on Bad Accounts	6,000	
Credit,	Accounts Receivable(1929)		3,000
	Accounts Receivable(1930)		3,000

Table XXI

	Total	1929	1930
Total	6,000	3,000	3,000
Cost	2,550	1,350	1,200
Gross Profit	3,450	1,650	1,800
%		55	60

For convenience, only two years, 1929 and 1930, are used in the above table. In most cases the years involved might be many more. The mathematical calculation is the same regardless of the number of years involved. From Table XXI, the following entry is made with the closing of the books at the end of the fiscal year:

Debit,	Profit and Loss(Bad Debts)	2,550	
	Reserve for Unrealized Gross Profits (1929)	1,650	
	Reserve for Unrealized Gross Profits (1930)	1,800	
Credit,	Reserve for Bad Accounts		6,000.

The above entry replenishes the reserve account, and adjusts the various unrealized gross profit accounts and at the same time reflects the amount of loss to be recorded on the income tax statement. This amount is $2,550 as shown in the above entry. If the books were not kept on an instalment basis, but

instead were kept on an accrual basis, the loss to be deducted could be stated as $6,000. From the above discussion it can readily be seen that the accounts receivable are an important asset for taxation purposes also. One accountant (25) says the following: "Article 42, of regulations 45, of income tax regulations allows instalment furniture dealers to determine their income by,

1. Considering gross profit on an instalment sale as realized at the time the sale is effected, or

2. Considering only such part of the gross profit on an instalment sale as realized as is collected in cash".

He also tells us that the first method presents no difficulty. But the second method presents a different problem when the three classes of sales are considered such as, cash sales (including C.O.D. sales), charge sales, and instalment sales. These types of sales and their problems have already been discussed. From a taxation viewpoint, the method discussed in the first method is costly and unnecessary as already pointed out provided proper records are kept. This same writer says that the privilege of reporting income on an instalment basis is granted to those instalment concerns who make cash sales, charge sales, and instalment sales on which an initial deposit of 25% or more is obtained. However, as already pointed out, this percentage has been raised to 40%. After determining the gross profit on cash sales, he advises

(25) Greenfield, Henry G., Accounts of instalment furniture dealers: The journal of accountancy, pp. 125,131, August 1930

this entry:

Debit, Sales
Credit, Cost of Goods Sold
Credit, Profit and Loss.

For instalment sales, the following is suggested:

Debit, Sales
Credit, Cost of Goods Sold
Credit, Unrealized Gross Profit on Instalment Sales.

After the amount realized in cash is determined, the following entry is made:

Debit, Unrealized Gross Profit
Credit, Realized Profit.

The above entry is for the per cent of cash collections on instalment accounts which have been realized for the year. It must also be remembered that if any of the accounts contain finance, carrying, or interest charges, that this factor must be in mind when making the entry to loss on bad debts. The important point, of course, is to determine how the charge was taken up on the books and whether or not it is a permanent one. An executive (26) of The Hub, Baltimore, Maryland, says that, "The business is comprised of cash sales, 30 day charge and instalment sales. Ten per cent is immediately added to the face of the instalment sale as a carrying charge on this type of sale. If an instalment account is paid in 30 days, this charge is deducted". At any rate, before an account can be written off, these charges must be considered. From the above

(26) Rosenberg, Third annual convention controllers' congress of the national retail dry goods association, p.50, June 13, 1922

discussion it can readily be appreciated how necessary it is to properly provide for accounts receivable in a retail furniture instalment concern. But it is equally important to determine the proper method of charging off bad debts. The arrears on accounts receivable will be a factor in determining if an account should be charged off. An English accountant (27) represents his views as follows in an English periodical, "A summary statement is made thusly:

Total balance owing by customers	xx
Add: amounts paid in advance	xx
Less:	xx
Arrears	xx
Less:	xx
Proportion of profit not yet accrued	xx
Total value of stock out on hire	xx.

This above amount is then treated as an asset on the balance sheet under a heading similar to this, Stock on Hire at Cost". The above method is very conservative and perhaps practical in stores carrying on business on a small volume as the accountant suggested. The arrears, of course, have a bearing upon the amount included in accounts receivable as an asset, which should be considered as a probable charge against the reserve account. If the account is considerably in arrears, and so for a lengthy period, it should be written off or the merchandise repossessed. In connection with bad debts, it must be remembered that bad debts are not a total loss. Only if the account cannot be traced is it a total loss. If the person in whose name the account is

(27) Riddington, C.R., A.S.A.A.: Hire purchase accounts for small retailers, The accountant, p.169, Saturday, 4 August 1928

recorded can be found, the loss is not the balance of the account. A replevin can be made and this reduces the loss. The loss, it is to be noted, is through the replevin account and not the account with loss on bad debts. For statistical purposes, the replevin and the loss on bad debts are two separate and distinct accounts. The replevin has already been discussed. A loss on a bad debt is not taken when the account is not fulfilling terms because if such is the case, the merchandise is repossessed. If the customer cannot be located, or is a "skip", then, and only then, is the account written off as a loss on bad debts. The line between these two losses is often a fine one, but it must be remembered in order to properly record the facts.

CHAPTER VIII

THE CHECK REGISTER

The check register is the record containing all disbursements by check. This book presents no unusual complexities but it can be improved upon particularly for inventory control purposes and for better classification of accounts payable. Table XXII shows a check register which could be used to advantage in a retail furniture instalment firm.

Table XXII

Name	Check No.	Total	Disct.	Freight Allow.	Acc. Pay. Tr.	Acc. Pay. Expense

(Continuation)

Freight Furniture	Freight Radio	Refunds Ledger I	Refunds Ledger II	Spec.	Cash Sales

(Continuation)

Allocation of Refunds 1929	Allocation of Refunds 1930	Commissions	Sales Salaries	Office Salaries

(Continuation)

Credit Dept. Salaries	Warehouse Salaries	Delivery Salaries	General Salaries	Officer's Salaries	General Items

It is to be noted that the freight is immediately allocated to its proper department as soon as it is entered. The sum of the first three money columns equals the sum of the totals of the

other columns. Provision is made in the register of disbursements by checks for all types of refunds, and it is recommended that all refunds, if possible, be made through this book. The totals of the refund columns, as already suggested will be deducted from the total receipts before determining the amount of cash to report as income. Provision is also made for allocation of refunds to the years in which the sales on the accounts were made. It is to be noted that refunds to instalment accounts receivable will very rarely have any bearing upon collections. The reason is obvious. Refunds are usually made because of the cancellation of a sale. If this is so, the money returned is simply the return of a down-payment. For this reason, the down-payment figure in dollars must be reduced by refunds, if the down-payment per cent is based on net sales, because the cancelled sale has already been taken out of the sales. Many theories are advanced in regards to the best and proper way to figure down-payments. The basing of down-payments on net sales is ridiculed because the greater the replevins or other forms of credits, the lesser the net sales and consequently the greater the down-payment percentage. This point is well taken. On the other hand, down-payments based on a gross sales basis is also inaccurate unless the cancelled sales are omitted from the down-payments figure. Of the two methods, the one using gross sales as a basis is less misleading. It seems that the ideal method to employ would be one using net sales and net down-payments. This can easily be accomplished by simply reducing new sales

by the amount of cancellations and also reducing down-payments by the amount of instalment account refunds. It is to be remembered that the proper type of down-payment group must be reduced.

The accounts payable should be recorded in two groups in order to reflect the amount due accounts because of trading obligations and because of incurred obligations on account of expenses. For this reason the two columns as shown in the check register are recommended. The accounts payable ledger is also segregated accordingly. The controls for accounts payable also conform with the above theory. This, of course, makes the location of errors much easier and at the same time is very informative to the executives. In the retail furniture instalment business at least two methods of payment of commissions to salesmen are prevalent. These methods are worthy of comment because they have a bearing on the preparation of accurate statements. Commissions are now being paid in this manner:

1. Weekly or monthly on a net sales basis,

2. Monthly, on basis of sales actually delivered.

The first method is one which allows payment to the salesmen on sales entered in the sales record. At the end of a given month, the commissions paid are thus charged into the proper month. The payment of commissions does not hinge on delivery of the merchandise to the customer. The second method allows payment in the following month based on deliveries. The second method presents

a situation which makes necessary additional records. This record is one which contains delivery of the sales made. If goods were sold to A for $100. who desired the goods held until he notified the date of delivery, his salesman would not be paid for this order. A commission journal would be kept in which commissions would be written up after the goods are delivered. It can readily be seen that the expense account of commissions for the monthly period or even for the yearly period does not reflect the proper expense. The following month is charged for commissions based on the sales of the prior month. This method of handling commissions is erroneous and requires unnecessary bookkeeping. The first method is accurate and requires only reference to the sales journal and credit journal in order to obtain the net sales amount. The payment to salesmen of commissions through the check register can be accurately recorded only if payment of commissions does not hinge on delivery. Even for taxation purposes, the second method is inaccurate.

It happens, and often too, that a customer receives a refund through the check register because of an overpayment on the instalment account. It must be remembered that this type of refund is one calling for a reduction in collections for the particular year to which it applies so that the percentage of collections can be accurately recorded. This type of refund will also reduce the amount of cash reported as income on the tax return. The entry closing the check register is as follows:

Debit, Accounts Payable - Trading
Accounts Payable - Expense
Freight - Furniture
Freight - Radio
Accounts Receivable
Ledger I
Ledger II
Special Accounts Receivable
Cash Accounts Receivable
Commissions
Salaries - Salesmen
Salaries - Office
Salaries - Credit Department
Salaries - Warehouse
Salaries - Delivery
Salaries - General
Salaries - Officers'
General - Items of a Miscellaneous Nature
Credit, Cash
Discounts
Freight.

The credit to freight will, of course, be segregated as to whether it is for the furniture or radio department.

CHAPTER II

THE PURCHASE JOURNAL

It is through the purchases journal that most of the expenses are recorded. Very few expenses are charged directly through the check register. From this book valuable information is reflected on the statements. A Chicago concern (28) makes a business of recording average figures for retail furniture installment houses. The bulletins issued by this company show average expenses and percentages of representative groups of stores located in various sections of the United States. These figures vary according to the annual volume of sales of the various stores. Because these bulletins are copyrighted and reprints of any information contained on them is prohibited, only reference will be made in a general way concerning the information given. Amounts in dollars and percentages are shown on the following items:

Administrative Expenses
Occupancy
Publicity
Selling Expenses
Handling
Delivery.

These bulletins also contain information of the following nature:

Number of employees in various departments
Mark-up.

Bulletins such as those issued by the N.R.F.A. should be consulted by every executive of a retail furniture store. To the executive these figures are very informative. These bulletins contain also average percentages of down-payments, and collections varying

(28) National retail furniture association, 666 Lake Shore Drive, Chicago (N.R.F.A.), Accounting council, W.N.Horne, Dayton, Ohio

only according to the volume of sales reached. Through the N.R.F.A. a means of checking up on the retail furniture instalment business is afforded. Every executive can compare the results of his concern with results of other stores located in other sections of the country. The comparison is made with stores reaching a like volume of sales. The following table, Table XXIII, is a purchases journal very easily adapted to the retail furniture instalment business:

Table XXIII

PURCHASES JOURNAL

Accts. Pay. Trade	Accts. Pay. Expenses	Purchases Furniture Radio	Advertising Newspaper

(Continuation)

Advertising Direct Mail	Advertising Display	Advertising Miscellaneous	Warehouse Supplies

(Continuation)

Warehouse Sundries	Delivery Supplies	Delivery Sundries	Radio Supplies	Radio Sundries

(Continuation)

Legal Fees	Credit Dept. Expenses	General Items

It is to be noted that the purchases journal carries out the theory used in the check register, namely, the segregation of the accounts payable. In connection with the purchases journal, it is well to recall the procedure followed in handling replevins. Replevins were handled through the Credit Journal. The other theory advo-

cated the use of the purchases journal, or even the general journal. If the purchases journal was used, every replevin would have to be entered as a purchase for the appraised value of the merchandise repossessed. The result thus obtained is one of a misleading and improper nature. Purchases are improperly inflated. If the purchases journal is used for the recording of replevins, the account with replevins will be lost usually because the entry must be a debit to purchases and a credit to accounts receivable, the difference being a debit or credit to the unrealized gross profit account.

It very often happens that a trading account payable is involved in an expense transaction. It is equally true that an expense account payable is involved in an entry requiring a debit to purchases. A condition such as explained above will, of course, reflect an untrue condition in the balances of the different classes of accounts payable. This condition could be remedied by the use of two ledger accounts with an account payable of the nature explained above. One account would be kept among the trading accounts payable and the other among the expense accounts payable. While this will accomplish the desired purpose, it is not a very good policy to adopt. In order to obtain the balance of any particular account, it becomes necessary to consult two ledger accounts in different sections of the accounts payable ledger and then add their balances. The better theory is one requiring the use of a supplementary sheet to the accounts pay-

able having four columns. The first two columns of the supplementary account would be concerned with trading transactions of a purchase nature. The remaining two columns would be used to reflect the transactions of an expense nature. Table XXIV shows how such a procedure will solve the problem and at the same time prove practicable.

Table XXIV

(Ledger Account)

John Jones and Co.

Charges		Credits		
1930		1930		Balance
Oct.25	1000	Oct.15	1,000	
Oct.31	800	Oct.18	500	
Total	1800	Oct.31	1,500	
		Total	3,000	1,200

Supplement to John Jones and Co.

Merchandise					Expense				
Charges		Credits			Charges		Credits		
1930		1930		Bal.	1930		1930		Bal.
Oct.25	1,000	Oct.15	1,000		Oct.31	400	Oct.18	500	100
Oct.31	400	Oct.31	1,500						
Total	1,400	Total	2,500	1,100					

Distribution in the check register of payments to accounts payable of the nature outlined would conform with the procedure used in the purchases journal. The adoption of a procedure as shown above would produce and reflect the proper amount due accounts because of the nature of the transaction involved. A very effective check on the inventory account is thus accomplished because the debit to the purchases account is exactly the amount credited to trading accounts payable.

Very often goods originally repossessed or shop worn are sent out to be repaired. The cost of repairing these goods should not be charged to purchases in its entirety if such procedure will cause the cost of these goods to reflect a sum greater than the original cost. The maximum amount which should be charged to purchases on account of repair work done on shop-worn or repossessed merchandise is that amount which will bring the book cost of the merchandise up to the original cost. It very often happens that an invoice for repairs is charged in its entirety to purchases and then added to the replevined cost on the stock records. The inventory account is, of course, overvalued. The percentage of gross profit on a sale of merchandise of this type is below the usual rate, and erroneously so because of improper accounting procedure. Transactions of the type suggested above should be carefully scrutinized before an entry is made in the purchases journal. The purchases journal and the sales records are the most important records controlling the inventory account. For this reason alone, if for no other reason, entries in these books must be accurate and in line with good accounting procedure. The closing entry for the purchases journal is as follows:

Debit, Purchases
(Furniture)
(Radio)
Newspaper Advertising
Direct Mail Advertising
Display Advertising
Miscellaneous Advertising
Warehouse Supplies
Warehouse Sundries

Debit, Delivery Supplies
       Delivery Sundries
       Radio Supplies
       Radio Sundries
       Legal Fees
       Credit Department Expenses
       General Items
Credit,   Accounts Payable - Trade
            Accounts Payable - Expense.

CHAPTER X

THE GENERAL JOURNAL

The general journal is the journal used for all closing entries. Closing entries for the sales journal, credit journal, and special sales journal will be shown in this book. Determination of the unrealized profits in the sales will be recorded in this journal by showing a schedule of cash received and allocating payments to the various years. The percentage of gross profit obtained in the current year will be used on the receipts thus bringing forth the unrealized gross profit in the sales for the current period. Cash received on account of past sales will be multiplied by the per cent of gross profit obtained in the corresponding years. The total cash thus obtained after multiplication by the various rates of per cent will equal the amount of gross profits realized. This figure is now used in debiting unrealized gross profits and crediting surplus. The gross profit on sales is credited to the unrealized gross profit account.
The above precedure requires two entries. If the difference between the gross profit on sales and the amount obtained through application of the various percentages on receipts is obtained, only one entry is needed. The difference will be credited or debited to unrealized gross profits depending upon whether the receipts sum is more or less than the gross profits. The general journal must be complete in its analysis of receipts because from this record the tax return can be very readily made out. The gen-

eral journal should contain the following schedules:

1. Determination of gross profits, in terms of a percentage, on current business,
2. Percentages of gross profits obtained in past years,
3. Determination of gross profits in receipts,
4. Schedule of determination of loss on replevins,
5. Schedule of determination of loss on accounts closed out to the reserve for bad debts.

All of these schedules have already been discussed earlier in this thesis. The general journal must also carry out the theory of the two classes of accounts payable in order that the control accounts may reflect the proper balances. It is to be remembered that in the computation necessary for the determination of the gross profit ratio, cash sales are not included because the actual profit on cash sales will be included in the cash reported as income. There are three ways of determining the proper balance of the unrealized gross profit account. Two of these methods are theoretical and not practicable. The three methods are as follows:

1. All cash received will first be applied to the cost of goods sold and after the cost of these goods has been fully paid for, following receipts will permit profits to be taken up,
2. All cash received is first applied to the profits and when the profits have been fully realized following receipts will be considered as payment on the cost of goods sold,
3. All cash received will be allocated on a predetermined basis obtained through the use of ratios to both the cost of goods sold and to the profits.

The theory advanced in the first method is very conservative. It is undoubtedly too conservative and the extreme is not to be advocated. Tax authorities undoubtedly will not permit use

of the first plan in reporting income. The theory advocated in the second plan is not in line with sound business policies. This method is not conservative and does not meet with the approval of good accounting principles. The procedure followed in the third method is one in the nature of a happy medium. The federal tax authorities approve of it and of the three possible methods of reporting income this plan seems most desirable. Permission to report income on an instalment basis must first be obtained from the federal authorities. Permission must also be obtained if a change in reporting income is desired. Once a change is made, income must be reported regularly on the same basis. In connection with tax reports, there is a very peculiar and perhaps illogical theory present in the tax laws. Assume that a corporation has been paying taxes, needlessly, because of the privilege allowed the business, and decides to change its basis of reporting income from one of an accrual nature to the one allowed instalment concerns. Permission, let us further assume, is obtained from the federal authorities to allow the 1930 return to be made out on an instalment basis. Assume, further, that receipts are made up as follows:

On sales of current period of 1930	100,000
On sales originating in 1929	50,000
On sales originating in earlier periods	30,000

Ethically and properly so, the receipts of 1930 amounting to 100,000 are taxable. Receipts of the prior years should not be taxed because returns of prior years were on an accrual

basis. However, the federal tax authorities tax the entire receipts including receipts originating in prior years even if returns in prior years were filed on an accrual basis. The complexity becomes all the more peculiar when the following is noted:

If a return is filed on an instalment basis and receipts of prior years are excluded (because tax returns were filed on an accrual basis) the tax commissioner can not insist on such inclusion. If a return is filed and receipts of prior years are included, the tax payer cannot request a refund because of such inclusion. The above rules (29) remained in force until very recently. At the present time, all receipts are taxable irrespective of the nature of returns filed in past. In effect the ruling brings about a double taxation which the federal authorities believe is just because of the "radical" change in reporting income. Tax returns filed on an accrual basis for a retail furniture instalment house require payment of taxes on unrealized profits. Such payment of taxes is truthfully a payment in advance. The instalment method of reporting income permits the payment of taxes as the profits are realized. The general journal, it can readily be seen, must properly reflect all entries necessary for proper closing of the books and proper recording of vital information necessary for taxation purposes. Table XXV is a general journal which can be advantageously used in a retail furniture establishment.

(29) Federal tax law with explanatory digest, National Shawmut Bank of Boston, p. 21, June 1928

Table XLIV

General Items	Accounts Payable Trade	Accounts Payable Expense

(Continuation)

Special Accts. Rec.	Cash Accts. Rec.	Accts. Rec. Control

(Continuation)

	Ledger I	Ledger II

CHAPTER XI

THE PETTY CASH BOOK

The petty cash book in a retail furniture instalment concern is used for petty disbursements. The freight column must of necessity be allocated to the various departments for inventory control purposes. The handling of freight in this book is essentially no different than the procedure employed in the check register. Refunds, however, need careful consideration if they are handled through this journal. Refunds must be segregated into one or more of the following groups:

1. Down-payments on new sales,
2. Down-payments on "re-open" sales,
3. Down-payments on "add-on" sales,
4. Collections,
5. Down-payment and collection.

If a refund is given through the use of the petty cash book, this refund is, of course, charged against accounts receivable. This also means that the subsidiary account with the receivables will also be charged. The subsidiary account as well as the control account will be credited with the full amount of the cancelled sale. In this way the original sale, and the refund are balanced out by the credit and nothing is disturbed. Since refunds are not handled as an entry in red on the daily collection sheet, the summary of down-payments must be reduced by the amount of refunds. It is very important for informative purposes to reduce the proper type of down-payment. If the refund is one effecting collections, then the collection figure must be reduced. This is

all necessary in order to present the condition properly.

It is rare that a refund is composed of both a down-payment and collection item. If it is so, the down-payment group and collections should be correspondingly reduced. These reductions are in the nature of adjustments and do not have any effect on the controls. The reductions can be taken care of on a statement called "Analysis of Transactions". The statement is purely one of an informative nature. Refunds must be deducted from the amount of cash to be reported as income as taken from the cash records. The above has already been recorded in the section devoted to the cash records. This deduction is, of course, necessary in order to avoid needless taxation. If the refund is on account of a "notify" sale, the recording of the refund is a deduction from down-payments on new sales, "re-open" sales, or "add-on" sales. If the refund is given and the sale had not been put through the records, the refund need not be deducted from down-payments or collections. This is so because the refund is charged against the suspense account which account was credited at the time of the payment and was treated as a current liability. The suspense account contains payments made on transactions not yet treated as sales because of the small amount of down-payment. There is, however, one situation which usually arises through the petty cash book which might easily arise in the check register. Assume that A buys $800. worth of merchandise and pays $100. down, the balance to be paid at the

rate of $50. per month. The transaction is, of course, treated as a lease sale of $800. and the $100. payment has already been treated as a down-payment on a new sale. Just before delivery A comes into the store and pays the balance of $700. How does this final payment effect the records of a retail furniture instalment house? If the usual treatment is applied to this payment of $700. it will be treated as an item of a collection nature. Is this the true situation? Clearly not. This transaction has become a cash sale. The proper procedure should be one which will not give credit to collections and down-payment and will give credit to cash sales. This treatment is also necessary for tax purposes because it is a realized profit and not an unrealized profit. The total amount of gross profit made on the sale must be reported as income. It is not subject to computation by a predetermined percentage. The lease sale must be cancelled off the books for $800. The down-payments must be reduced by $100. and cash sales must be credited for $800. The following entries will take care of the situation:

Debit, Sales - Lease	$800.	
Credit, Lease Accounts Receivable		$800.
Entry in credit journal		
Debit, Lease Accounts Receivable	$100.	
Credit, Cash Accounts Receivable		$100.
Entry in general journal		
Debit, Cash Accounts Receivable	$800.	
Credit, Cash Sales		$800.
Entry in sales journal		
Debit, Cash	$700.	
Credit, Cash Accounts Receivable		$700.
Entry on daily collection record.		

The same procedure as outlined above is to be followed if a cash sale is changed to a lease sale. The theory involvod is identical. The cash sale must be cancelled from the records. The amount paid in must be treated as a down-payment on a new lease sale. Assume a cash sale is made to A in the amount of $500. and at the time of purchase $50. is paid and the balance of $450. to be paid on delivery. The following entry has already been accomplished through the sales record:

Debit, C.O.D. Accounts Receivable	$500.	
Credit, Cash Sales		$500.

Through the cash records this entry has been completed in this manner:

Debit, Cash	$50.	
Credit, C.O.D. Accounts Receivable		$50.

To adjust the records properly the following entry in red will be made in the sales journal:

Debit, Cash Sales	$500.	
Credit, C.O.D. Accounts Receivable		$500.

The $50. paid in will be treated as a down-payment and the general journal will transfer the down-payment to the instalment account receivable in this manner:

Debit, C.O.D. Accounts Receivable	$50.	
Credit, Instalment Accounts Receivable		$50.

If these changes occur without proper adjustment, it can readily be seen that the accurate results are not shown. Collections may be improperly charged or credited. Down-payments may also be

improperly charged or credited. If the journal entry advocated above for the transfer of the original payment is not desired, the amount of the original payment may be charged against the account originally opened through the petty cash book and credited to the new type of account on the daily collection sheet. This can all be accomplished through the issuance of a petty cash voucher or a check. The following entry completes the necessary adjustments.

Debit, Lease Accounts Receivable	$500.	
Credit, Lease Sales		$500.

CHAPTER XII

FINANCIAL STATEMENTS AND STATEMENTS OF OPERATIONS AND TRANSACTIONS

THE BALANCE SHEET

The monthly or annual statements can very readily be prepared from the books. These statements must present the important facts properly. Table XXVI is a balance sheet in a comparative form:

Table XXVI

Balance Sheet

January 1, 1929			January 1, 1930	
Assets			Assets	
Current Assets			Current Assets	
Cash in banks		50,000.		100,000.
Imprest Fund		1,000.		1,000.
Lease Accts.Rec.(1929)			600,000.	
Lease Accts.Rec.(1928)	500,000.		100,000.	
Lease Accts.Rec.(1927)	300,000.		50,000.	
Lease Accts.Rec.(1926)	200,000.			
Total Accts.Rec.	1,000,000.		750,000.	
Less Reserve	100,000.	900,000.	75,000.	675,000.
C.O.D.Accts.Rec.		10,000.		5,000.
Special Accts.Rec.		5,000.		4,000.
Mdse.Inventory		200,000.		125,000.
Total Current Assets		1,166,000.		910,000.
Fixed Assets	50,000.		30,000.	
Less Reserves	20,000.	30,000.	15,000.	15,000.
Total Assets		1,196,000.		925,000.

(Continuation Table XVI)

	January 1, 1929		January 1, 1930	
	Liabilities, Capital, and Surplus			
Current Liabilities			**Current Liabilities**	
Trade Accts.Pay.	50,000.		35,000.	
Expense Accts.Pay.	25,000.		15,000.	
Notes Pay. Banks	50,000.		40,000.	
Trade Accepts. Pay.	10,000.		15,000.	
Customers' Deposits	20,000.		25,000.	
Total Current Liabilities		155,000.		130,000.
Res.Unreal. Profits (See Sched.)		500,000.		300,000.
Capital				
Auth.Pref.Cap.Stock	500,000.		500,000.	
Unissued Pref. Stock	100,000.		100,000.	
Pref.Stk.Iss.& Outstg.	400,000.		400,000.	
Auth.Iss.Out.Comm.Stk.	100,000.		100,000.	
Surplus (Deficit*)	41,000.		*5,000.	
Net Worth		541,000.		495,000.
Total Liabilities and Net Worth		1,196,000.		925,000.

A comparative balance as shown is very informative. It does not conceal any of the vital facts necessary to an intelligent reading of the financial statement. Accounts receivable are shown by the years in which they were brought on to the books. A comparison between the reserve for the accounts and the oldest receivables immediately tells whether or not this reserve is adequate. Below are shown supporting schedules to the unrealized gross profits accounts :

Table XXVII

Unrealized Gross Profits Account, January 1, 1929

Unrealized gross profits in 1928 accounts	250,000.
Unrealized gross profits in 1927 accounts	150,000.
Unrealized gross profits in 1926 accounts	100,000.
Total	500,000.

Table XXVIII

Unrealized Gross Profits Account, January 1, 1930

Unrealized gross profits in 1929 accounts	225,000.
Unrealized gross profits in 1928 accounts	50,000.
Unrealized gross profits in 1927 accounts	25,000.
Total	300,000.

The above schedules may, if desired, be shown on the balance sheet in place of the one amount with unrealized gross profits. In no case should this unrealized gross profit account be ignored. Comments should be made somewhere on the balance sheet with reference to this account. The figures shown are purely taken at random. On the asset side of the balance sheet, the most important balance shown is the one with instalment or lease accounts receivable. The segregation of this account is very informative, and more so when reference is made to the reserve for bad debts, and the respective unrealized gross profit account . On the liability side of this statement accounts payable are separated into classes depending upon the nature of the accounts. Customers' deposits are shown as a liability. These deposits are a suspense item until the lease contract is executed and at that time the suspense account is charged with a credit to instalment or lease accounts receivable.

The unrealized gross profit account must not be concealed with any other account. Good reasoning and sound business policies must be considered. This reserve is not part of the net worth. An accountant familiar with this type of business or even an auditor examining this account and its composition as shown by supporting schedules will undoubtedly treat this reserve in a section by itself. The total reserve itself is not as important as is its composition. The schedule will show how near or remote the time is when the profits might be realized. Reference to the supporting schedule, as shown on the balance sheet, and to the subsidiary account with accounts receivable will determine the amount of delinquencies in the reserve. As already stated, some accountants favor another treatment of this reserve account. They favor reducing accounts receivable by the unrealized gross profits account. This treatment, of course, is unfair and erroneous. It happens very often that the surplus account is a debit amount. Reference to comparative balance sheets shown reflects this condition. This condition will arise when operating expenses and non-operating expenses are in excess of profits realized through collection of receipts. It is not at all unusual for a retail furniture instalment concern to reflect a debit balance in surplus and also show a large credit balance in the unrealized gross profit account. This condition means that the profits are not being realized fast enough to keep pace with business expenses. To reiterate, it is not a good policy to pay a dividend from this reserve account. The account at its best is a contingent income account depending for realization upon actual collection of cash.

Table XXIX

Comparative Profit and Loss Statements

December 31, 1929

	Current Period 1929	%	Last Year 1928	%
Gross Instalment Sales	1,000,000.		900,000.	
Less Credits:				
Replevins	100,000.		80,000.	
Rets.and Cancell.	140,000.		140,000.	
Discounts	5,000.		4,000.	
Allowances	5,000.		6,000.	
Total Credits	250,000.		230,000.	
Net Lease Sales	750,000.		670,000.	
Net Cash Sales	50,000.		30,000.	
Total Net Sales	800,000.	100.00	700,000.	100.00
Cost of Goods Sold:				
Opening Inventory	150,000.	18.75	125,000.	17.857
Net Purchases	350,000.	43.75	325,000.	46.428
Freight	10,000.	1.25	8,000.	1.142
Less:	510,000.	63.75	458,000.	65.427
Spec.Sales Cost	10,000.	1.25	8,000.	1.142
Closing Inventory	100,000.	12.50	150,000.	21.428
Total	110,000.	13.75	158,000.	22,570
Cost of Goods Sold	400,000.	50.00	300,000.	42.857
Gross Profit on Sales	400,000.	50.00	400,000.	57.143
Operating Expenses	300,000.	37.50	290,000.	41.428
Net Profit on Trading	100,000.	12.50	110,000.	15.715
Deduct:Other Charges	25,000.	3.125	30,000.	4.285
	75,000.	9.375	80,000.	11.430
Add: Other Income	5,000.	.625	1,000.	.144
Net Profit for Period	80,000.	10.000	81,000.	11.574

If the first column is used for current months operation in comparison with second column which would reflect same month last year, two additional columns could be used. One would be for the current period to date and the other one would be for last year to date.

The Profit and Loss Statement

The profit and loss statement may treat unrealized profits as income because the actual entry for the contingent item is treated properly in the general journal. A system can be conceived in which only realized profits are shown on the profit and loss statement. This system will not prove beneficial or practicable because collections made in the current period on sales made in prior periods will necessitate the crediting of the current period's income. In other words, the current period will gain to the detriment of past periods because of collections in this period on sales made in past periods. Table XXIX shows a profit and loss statement which is best shown in comparative form. The schedule can reflect four statements for comparative purposes, if monthly statements are drawn. For purposes of this record the yearly comparative statements are only shown. Table XXIX shows a percentage column which reflects operating costs in terms of a per cent based on net sales. Lease or instalment sales are first shown as a gross amount and then as a net amount. To net instalment sales is added net cash sales thus arriving at the total net sales. It is to be noted that special sales are treated as a deduction from cost. The other treatment is one which credits purchases for the cost of special sales and thus does not show special sales on the statement. Either treatment accomplishes the same result. The statements shown are easy to read and understand and yet the salient features are clearly brought out. Replevins, if desirable, could be "broken down" into

the years of origin. For statement purposes this is not necessary, because reference to the credit journal will reflect the years against which these replevins apply. If replevins were treated as purchases, a treatment erroneous in theory as already pointed out, the replevins would disappear from the statements, and the profit would be undoubtedly increased. Such erroneous treatment would bring about a condition in which profits would be incorrectly reflected. Some accountants have advocated a treatment of sales which would of necessity favor one year's transactions to the detriment of another year. This theory calls for including in income only that portion of sales which is collected even though this collection is in a period removed from the date of the sale. For tax purposes this theory is proper and is usual as already brought out. For statement purposes it is incorrect and unfair to an instalment concern. It is from this comparative profit and loss statement and the other records that a statement of transactions and results can be prepared. The percentage of mark-up is properly shown on net sales but will vary from the usual mark-up, depending upon the loss or gain which will be reflected because of replevins. Replevins are always shown as the amount necessary to close out the accounts unless miscellaneous charges, such as carrying charges, have improperly been treated as income previously. If such is the case, the carrying charges or miscellaneous charges are not to be included in the replevin. They should be charged against the account credited. This account may be other income or the account with unreal-

ized gross profits. Losses on replevins are a charge against the year in which the replevin becomes necessary. Any other treatment is unfair and inaccurate.

Table XXI

Comparative Statement of Results of Transactions and Operations

December 31, 1929

	Current Year 1929	%	Last Year 1928	%
Receipts				
Collections 1929	100,000.			
Collections 1928	350,000.		325,000.	
Collections 1927	250,000.		300,000.	
Collections 1926	200,000.		250,000.	
Total Collections	900,000.	81.4	875,000.	89.5
Down-Payments				
New Sales	85,000.	12.1	75,000.	15.
"Add-On" Sales	5,000.	6.6	5,000.	5.
"Re-Open" Sales	10,000.	13.3	5,000.	5.
Total Down-Payments	100,000.		85,000.	
Cash Sales	55,000.		40,000.	
Special Sales	11,000.		5,000.	
Miscellaneous			1,000.	
Total	66,000.		46,000.	
Total Receipts	1,066,000.		1,006,000.	
Analysis of Lease Sales				
New Sales	700,000.	82.4	550,000.	73.34
(No. of above)	(17,500)		(13,000)	
"Add-On" Sales	75,000.	8.8	100,000.	13.33
(No. of above)	(1,000)		(2,000)	
"Re-Open" Sales	75,000.	8.8	100,000.	13.33
(No. of above)	(1,500)		(1,500)	
Net Sales(Exclu.of Replevins)	850,000.	100.0	750,000.	100.00
Departmental Sales				
Furniture	650,000.	100.	600,000.	100.
Gross Cost	310,000.	47.7	250,000.	50.
Gross Profit	340,000.	52.3	350,000.	50.
Radio	150,000.	100.	100,000.	100.
Gross Cost	90,000.	60.	50,000.	50.
Gross Profit	60,000.	40.	50,000.	50.
Replevins				
Amt. Credited to Accts.	100,000.	76.9	60,000.	80.
Amount Paid In	30,000.	23.1	20,000.	20.
Original Sales Amount	130,000.	100.0	80,000.	100.

The comparative statement of results of operations and transactions can have two additional columns, as explained, for the comparative profit and loss statements. These two additional columns would reflect results for current period to date and corresponding period of last year. This is very desirable when the first two columns are used for monthly transactions. Much has already been said about collections. Collections could be based on the type of sale, such as new, "re-open," or "add-on" sales. Nothing of vital importance, however, is brought forth by following such a procedure. Table XLI is a comparative statement and collections are shown first as applying to the years of origin and secondly as a total. The total figure and its corresponding percentage is based on actual collections and its comparison to the amount of "maturities". As already shown, the "maturity" amount is taken from the subsidiary account to accounts receivable. Out of a possible one hundred per cent eighty-one and four tenths per cent was collected. This computation is not based on the accounts receivable as is often erroneously done. The same procedure is followed when monthly statements are taken and while a computation based on accounts receivable might reveal a percentage anywhere from five to twelve, if the same amount collected was based on the "maturities" it might reveal anywhere from seventy-five to one hundred per cent perhaps.

Down-payments are based on the type of sale. Down-payments for new sales, "add-on" sales, and "re-open" sales are figured

separately. This procedure shows the true result obtained on each type of sale. The procedure of basing the total down-payments on total sales is erroneous. Replevins are excluded from this computation because if included the net sales would be reduced and this would tend to erroneously increase the percentage of down-payments. Cash sales and receipts on cash sales are excluded from all computations with regards to either collections or down-payments.

Net sales, exclusive of replevins, are shown in three separate totals. This segregation is necessary for the down-payment computation. The percentage of each class of sales is shown as compared with the total sales. Net sales, after deduction of replevins, is also shown by departments. The gross profits by departments is also shown. This information is very important in that it shows the volume and mark-up obtained by departments. The amount of cash paid in on replevins is only an informative computation. Over a long period, it shows the average amount usually paid in on replevins. This computation can be of valuable aid in budgeting expenses, sales, and losses for future years. This statement of results of transaction and operations is a very important statement for every executive of a retail furniture instalment concern to examine. This statement, it is doubtless true, is not in use in the department stores. From this statement many budgets can be prepared. A statement such as above shown should be introduced into every retail furniture instalment establishment. It proves to be a great guide for this business.

Tax Statements

The certificate of condition and the state franchise report are not difficult to prepare. The former statement is the same for this type of business as for any other. The latter statement in the most part is a copy of the federal return. However, as already pointed out, when preparing the state return, if variations exist between book values and actual values, these variations must receive careful attention. If the variation is in regards to the actual value of accounts receivable, the amount of this variation is to be taken out of the unrealized gross profit account and not the surplus account. Nearly all other deductions claimed are a reduction of the surplus account and not the unrealized gross profit account. The reason for such procedure is clear because accounts receivable in a retail furniture instalment establishment represent unrealized gross profits.

The federal return should receive very careful attention. The opening amount on the income section of this statement, and this section is the only section our interest lies in, is gross profits in cash receipts. This amount is taken from the schedule determining this amount. The gross profit on cash sales is included in the amount and a copy of this schedule is attached to support the amount shown. To this amount is added other income. The deductions are the usual expenses with a few exceptions. One of these exceptions is the loss on bad debts. The loss on bad debts has already been explained in the schedule for determination of loss on

bad debts. A copy of this schedule should support the deduction claimed. The amount written off as bad debts is not the amount to be claimed because the entire sale when made was not reported as income. The amount to be claimed is the amount written off lessened by the amount still remaining in the unrealized gross profits account. Losses on replevins are based on the same theory as losses on bad debts. The loss claimed as a deduction is the amount written off lessened by the amount still remaining in the unrealized gross profits account plus the appraised value of the merchandise repossessed. It is to be remembered that replevins arising from sales made in the current period can be treated the same as cancellations and can be figured in while determining the gross profit ratio. With the above exceptions properly recorded on the federal tax return and supported by copies of the various schedules, the return can be filed. Deductions for losses in prior years covering a two years basis can also be deducted in the return. In other words, exclusive of the exceptions already explained, the tax return filed is the usual one for a corporation. It is to be remembered also that the profit and loss section, with the exception of deductions for losses of prior years, is also used in the preparation of the state franchise tax return. All of the schedules needed for tax returns will be found in the general journal. The general journal, if properly kept, makes the computation and preparation of tax returns a simple matter.

CHAPTER XIII

Summary

The retail furniture instalment business is a specialized field of business activity with very specific problems of its own. This type of business today, commands a very important place in the development of commercial success and is, in no small measure, highly essential for continued prosperity. In the instalment group of businesses, the retail furniture instalment business is second only to the automobile trade as far as volume is concerned. Accounting theory, while it very seldom varies in its application to different problems, must be specifically applied to the retail furniture business in a certain specified manner. The outstanding records of great importance are: the sales journal, the journal of credits, and the cash receipts book. The three mentioned records give forth information very essential to the growth of this business. These records form a guide to the business. It is very important to be able to easily ascertain the amount of new sales, "re-open" sales, and "add-on" sales. This information immediately furnishes the executives with reasons for increases or decreases in volume and also indicates the sources.

The volume of every department is reflected in the sales journal with its corresponding cost. All of this information is contained in the sales journal. From this record is obtained an accurate base on which to compute collections. Every sale is allocated in a subsidiary record to its proper column. The month

column immediately reflects the amount which should be collected based on the terms granted. Neither the accounts receivable nor the net sales is a proper base in the computation of net collections. Either one may be a proper base in other fields of commercial activity. In this instalment business, the one and only proper base is the "maturities" amount as reflected in any given month. Arbitrary figures are guesses and are ruinous. Down-payments are properly computed on sales after sales are specifically segregated into new sales, "re-open" sales, and "add-on" sales. One down-payment percentage is meaningless. While collections and down-payments may appear to be very good, the records may disclose a reverse and true condition. Collections on certain accounts and down-payments on certain sales may be so good as to cover up very poor results elsewhere. The records will disclose the fault and also point it out. The sales journal aids in all these computations by its analytical layout.

The journal of credits is a book of great importance in a retail furniture establishment. This book will analytically record replevins, and even other types of credits if necessary. This allocation is necessary for taxations as well as for informative purposes. Through this allocation is afforded a means of determining losses occurred because of business done in prior years. Allocation of replevins reflects losses and points out the very years, or if desirable, the very month in which the original sale was recorded. It can easily be determined why the loss oc-

curred on these replevins by reference to the original sale. The result may show that bad judgment was exercised by the credit department, or from the economists' viewpoint, a depression may have caused the loss. This journal reflects by departments and even by salesman, the losses occasioned on sales, the profit on which has already been placed in a reserve account, the unrealized gross profit account. The unrealized gross profit account can be properly charged for amounts in it which have already been lost because of replevins. The replevin contains an economic element in that it very often reflects business trends and conditions. Replevins must not and cannot be handled as a usual credit. This is mandatory for taxation purposes. It is not good procedure to treat replevins as purchases and thus do away with the account with replevins. To the auditor, the account with replevins furnishes him with a good knowledge of the condition of the accounts receivable. Entries from the journal of credits will be credited to the subsidiary account with accounts receivable so that the proper balance in the "maturities" will be shown.

Special sales, so called because of the nature of the transaction, are credits to the purchases account for their cost and the difference between the sales amount and the cost is either a debit or credit to other income. Special sales have no effect upon computations of any importance. It is, however, to be remembered that receipts on these sales are not taxable as income. The profit made on such sales is taxable.

The record with cash receipts is very valuable. The

journal contains all receipts on lease sales and the receipts are credited to the proper "maturities" column. The debit column, the amount which should be collected, based on the allocation of sales, can be compared with the credit column, and the proper amount of the deficiency is thus ascertained. This result may be expressed in both a percentage and in dollars. For taxation and informative purposes, allocation of receipts is necessary. Down-payments are reflected as a separate item and compared with the proper sales volume. The volume to which comparison is made must be exclusive of replevins. Down-payments should not be based on net volume because the result obtained is inaccurate and misleading. The crediting of the proper control with receivables with all credits, enables the records to reflect at all times a "perpetual inventory of receivables". Expressed somewhat differently, the accounts receivable can be so segregated as to show to an executive the amount of investment in receivables and their age. Refunds should not be handled through the journal of receipts. The journal with receipts contains a record of total down-payment and this total is then segregated showing whether it applies to new accounts, "re-open" accounts, and "add-on" accounts. Percentage of down-payments can now be effectively shown. The proper handling of this journal with receipts produces valuable and accurate information which is highly important. The true facts are presented and are not hidden in the records because of any faulty procedure. If a poor condition is reflected in down-payments, the very group or groups producing the poor showing are pointed out. A total figure with down-payments

will not prove informative. The percentage obtained through use of only one down-payment figure may be good or poor. If use is made of three down-payment figures and application is made to the volume obtained in these three types of sales, a different result may be the true condition.

The check register and petty cash book are of importance only for the proper recording of facts for the retail furniture instalment business. These books must divide accounts payable into accounts payable for merchandise purchases and accounts payable for purchases of expense items. If an account payable is both a trading and an expense account, it is unnecessary and inadvisable to open two accounts. One account properly subdivided will accomplish the desired result. Refunds must also be allocated for taxation purposes, and their amount should be deducted from the amount of receipts. Refunds must be charged against collections or down-payments or against both of these items depending upon the type of refund. Refunds on sales not put through the records should be charged against the liability account which was credited for these deposits. All of this is necessary in order to properly reflect the true amount and percentage of down-payments and collections. These books, while ordinarily of minor importance, are very important in this type of business. The reason is because these records contain items of a sundry nature which must be deducted from amounts regularly recorded. Refunds are best handled through the check register and even the petty cash book. Refunds should not be

handled through the receipts book by use of entries in red.

Only one record for purchases is needed because credits to purchases can be entered in red. The purchases journal must carry out the theory of segregation of accounts payable as to whether they are trade accounts or expense accounts. If an account payable is both a trade account and an expense account, the amounts of these parts should be entered accordingly. The journal with purchases must not be used as a journal for recording replevins and losses on replevins. If replevins are treated as purchases, a valuable account containing very important information is withdrawn from the records. The work entailed becomes unnecessarily excessive because the unrealized gross profit account must be adjusted immediately for proper recording.

Miscellaneous charges such as finance charges and the like, if permanent, should be treated as other income. These charges should not be hidden by inclusion with sales, or return sales. If these charges are included as income when they are not of a permanent nature, taxes are unnecessarily increased because of the increase in gross profit. This increase in gross profits increases the amount of cash to be reported as realized profits. The best treatment for temporary charges is to credit a reserve account which is fundamentally a deduction from accounts receivable.

The general journal will carry out the theory of segregation of accounts payable. This book will contain entries such as those necessary for a change from a lease sale to a cash sale

and vice versa. This type of adjustment is very important because it has an effect on down-payments, collections, and taxation. The general journal will reflect all schedules necessary for the preparation of tax returns. Schedules such as determination of gross profits on sales, losses on replevins, losses on bad debts, determination of realized profits in cash receipts, on a yearly basis, are reflected in the general journal. The closing entries are then easily prepared.

The balance sheet is a reflection of a financial condition at a specified period. In this business, there are two accounts which must be properly shown on the balance sheet. The accounts receivable must be shown as lease or instalment accounts receivable and should not be combined with either special or cash accounts receivable. In addition to this segregation, lease accounts receivable should be shown so as to reflect the date of maturity. This segregation is easily obtained from the subsidiary record with lease accounts receivable. This subsidiary record will also reflect delinquent accounts. Thus the balance sheet will reflect the amount of delinquencies against which a proper reserve fund can be shown. The reserve should also contain an amount sufficient to offset any delinquencies which may later arise in connection with accounts not yet due. All this, in effect, results in an ageing of the instalment accounts receivable. The other account, worthy of comment, is the unrealized gross profit account. It is often argued that this account should be combined with surplus. To do this is to mislead the reader of the balance sheet.

The unrealized gross profit is not a surplus account until the profit is realized. The reserve with unrealized profits, and it is truly a reserve, must be shown separately. Some accountants believe that the reserve should be deducted from the accounts receivable. This, of course, is unfair to the business and at the same time not proper. The best procedure is to show instalment accounts receivable less reserve for bad debts among the assets. The unrealized gross profit account is to be shown as a reserve on the liability side of the balance sheet. The balance sheet must also reflect balances due trading accounts payable for merchandise purchases and amounts due expense accounts payable. The balance sheet should be shown in a comparative manner.

The statement of operations should also be shown in a comparative form. It should show gross lease sales, less credits. On this figure thus obtained, exclusive of replevins, the down-payments will be computed later. Net sales include cash sales, and the gross profit percentage is now obtained. It is to be remembered that this percentage is not the one to be used for income tax purposes, because it includes profit, in terms of a percentage, on cash sales.

The statement with results of operations is a very important one. It will reflect net sales by departments and even gross profits by departments if this is also desired. The down-payments and collections can be computed and shown on this statement. Down-payments can be shown first as total in money and then

in terms of a percentage. But down-payments must be shown in separate percentages in relation to new sales, "re-open" sales, and "add-on" sales. The percentage of collections is to be based on "maturities" and not on accounts receivable or even net lease sales. The only proper base on which to calculate collections is on the "maturity" amount as taken from the subsidiary account with lease accounts receivable.

Income tax forms must be properly prepared. The state franchise tax presents no difficulties because the profit and loss statement is essentially the same as prepared for the federal government. The one exception is the exclusion of losses in prior years. The statement of condition can be easily prepared from the books. In the state tax form, it is to be noted that if the actual values are shown as less than the book values, the proper account must be reduced. It may be either the surplus account or the unrealized gross profit account. If inventory is shown for a lesser sum in the actual column than in the book value column, the difference between the two amounts is clearly a reduction of surplus. If lease accounts receivable are shown with a lesser amount in the actual value column, this difference is not a reduction of surplus. It is a deduction of unrealized gross profits, because this reserve account contains the unrealized profit on the outstanding receivables. The one important tax return is the one filed with the federal government. The profit and loss statement on this return is worthy of comment. It must, of course, contain all the various schedules already commented on. The opening figure on this return is one taken from the schedule determining the amount of gross profit in

the receipts. This figure is made up of the profit on lease collections plus gross profit on cash sales. To this amount can be added other forms of income. The usual deductions are taken. The deduction for losses on replevins must be supported by the proper schedule reflecting the determination of losses on replevins. The deduction for losses on bad debts must also be supported by the statement showing the determination of the loss. The amount of cash reported as income will also be supported with the statements showing how the profit was determined. Tax forms, if properly made out, will prevent the payment of unnecessary taxes.

CHAPTER XIV

Conclusion

The retail furniture instalment business in the United States is a business of vast importance because of its volume of sales and because of the current economic trend of purchasers and purchasing power. Because of these facts the business must function properly and aggressively. This can only be accomplished by the standardization of its records. This standardization is very essential to the success of this business and can only be accomplished by the introduction of standard methods and procedure to follow in the keeping of the accounting records. Vital information necessary for the proper functioning of this business can only be forthcoming from properly kept records. Taxes can be lessened by the proper preparation of returns based on accurate records. The business was, in the past, being run without any proper regard to its accounting records. The results obtained from improperly kept records are misleading and not informative. The reasons for a poor showing in commercial activities are hidden within the records. Properly standardized records as shown and suggested will point out the reasons for poor results. The accounting records with receipts, sales, and credits must of necessity be standardized and this business should report income for taxation purposes on an instalment basis. This method of reporting income makes necessary proper provision in the records for information to be furnished the government in order to be allowed to report income in the manner recom-

mended. Reporting income on an instalment basis is not an evasion of taxes. To the contrary, it results in a sharing of profits with the federal government as profits are realized and collected. To report income on an accrual basis is to needlessly part with capital which undoubtedly can be used advantageously in the business. The account with unrealized gross profits should be set up in every retail furniture instalment establishment. This account should not be combined with any other account and this account is not a surplus account, but instead an account from which credits to surplus will be made when profits become earned. Profits become realized only when collected. To show an account as a surplus account when it may not be collected for a period of years, is very misleading. Dividends should not be paid out of an unrealized gross profit account. Dividends should only be paid out of earned surplus. Earned surplus in the retail furniture instalment business is surplus earned through its collections.

Down-payments and collections constitute very important factors in this business. Poor results obtained in either of these factors can be properly reflected only through properly maintained records. Good results in down-payments or collections, if proper records are maintained, may only mean that the condition is true because a certain part of the accounts are paying very good. Good results in collections will be misleading when improper records are kept, because while collections may be good, the accounts may contain many delinquencies. Properly kept records will show the result

of operations and the reasons for such showing. This business has now functioned long enough without the guidance of proper accounting records and without good accounting procedure. Accountants must advocate standardization of all accounting records to be kept in the retail furniture instalment business. In addition, accountants must advocate the proper accounting procedure to follow and point out the advantages to be obtained from such procedure. It lies with the auditors to prove the benefits to be obtained through tax relief and the vital information assimilated through properly kept records. This can only be accomplished through the standardization of all the accounting records maintained in a retail furniture instalment establishment.

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